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- Factor Pricing
- General Equilibrium Analysis
- Efficiency Criteria: Pareto-Optimality, Kaldor – Hicks and Wealth Maximization
- Welfare Economics: Fundamental Theorems , Social Welfare Function
- Asymmetric Information: Adverse Selection and Moral Hazard

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- Investment Function
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- Demand for Money
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- IS – LM Model Approach

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- Business Cycles
- Monetary and Fiscal Policy
- Rational Expectation Hypothesis and its critique
-

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- Models of Economic Growth: Harrod-Domar, Solow, Robinson, Kaldor
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- Age Structure, Demographic Dividend
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- Agriculture: Pattern & Structure of Growth, Major Challenges, Policy Responses
- Industry: Pattern & Structure of Growth, Major Challenges, Policy Responses
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- Rural Development – Issues, Challenges & Policy Responses
- Urban Development – Issues, Challenges and Policy Responses.
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CHAPTER 01
Micro Economics

1. Which of the following best defines the concept of 'utility' in the theory of consumer behaviour?
(A) The price a consumer is willing to pay for a commodity.
(B) The want-satisfying power of a commodity or service.
(C) The total amount of money spent on a basket of goods.
(D) The availability of a commodity in the market.

2. Identify the correct statement regarding the properties of a standard indifference curve.
(A) It is convex to the origin due to a diminishing marginal rate of substitution.
(B) It is concave to the origin, which would imply an increasing marginal rate.
(C) It slopes upward from left to right, indicating a positive correlation.
(D) Two indifference curves can intersect, violating the consistency axiom.

3. Given below are two statements regarding utility analysis. Read them and choose the correct option.
Statement I : The cardinal utility approach assumes that utility is measurable and quantifiable.
Statement II : The ordinal utility approach ranks the satisfaction derived from different combinations of goods.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

4. A consumer's budget line will shift parallel to the right if:
(A) The price of the good on the X-axis decreases.
(B) The price of the good on the Y-axis increases.
(C) The consumer's tastes and preferences change.
(D) The consumer's money income increases.

5. Match the items in List I with those in List II and choose the correct option.
List I: (Concept)
P. Indifference Curve
Q. Budget Line
R. Consumer Equilibrium
S. Price Consumption Curve
List II: (Description)
1. Locus of points of consumer equilibrium resulting from changes in the price of a good.
2. Represents all combinations of two goods that give the same level of satisfaction.
3. The point where the budget line is tangent to the highest attainable indifference curve.
4. Represents all combinations of two goods that a consumer can afford given their income and prices.
(A) P-2, Q-4, R-3, S-1
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-1, Q-4, R-3, S-2

6. The convexity of an indifference curve implies which of the following?
(A) An increasing marginal rate of substitution.
(B) A diminishing marginal rate of substitution.
(C) A constant marginal rate of substitution.
(D) A zero marginal rate of substitution.

7. Which of the following is NOT an assumption of the law of diminishing marginal utility?
(A) Utility is cardinally measurable.
(B) The marginal utility of money is constant.
(C) The consumer is rational.
(D) The consumer's income is variable.

8. When the price of a commodity falls, the substitution effect leads the consumer to buy more of that commodity because:
(A) The commodity is now relatively cheaper than its substitutes.
(B) The consumer's real income has increased

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significantly.
(C) The commodity has become a Giffen good in the market.
(D) The consumer's tastes have shifted in favor of the good.

9. Identify the incorrect statement regarding the Revealed Preference Theory.
(A) It is based on the principle of observing consumer behavior.
(B) It assumes consistency in consumer choices.
(C) It requires the assumption of cardinally measurable utility.
(D) It helps in deriving the demand curve without using indifference curves.

10. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : For a Giffen good, the demand curve is positively sloped.
Reason (R) : In the case of a Giffen good, the negative income effect is stronger than the positive substitution effect.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

11. An Engel curve for a normal good is:
(A) Downward sloping.
(B) A horizontal straight line.
(C) A vertical straight line.
(D) Upward sloping.

12. In a situation where a consumer's indifference curve is tangent to the budget line at a point on one of the axes, it is known as a:
(A) Saddle point solution.
(B) Corner solution.
(C) Interior solution.
(D) Unstable equilibrium.

13. What does the Marginal Rate of Substitution (MRS) between two goods x and Y represent?
(A) The price ratio of the two goods established by the market.
(B) The slope of the budget line showing constraints and income.
(C) The amount of Y a consumer sacrifices for X to maintain utility.
(D) The rate at which a consumer trades Y for X based on prices.

14. Consider a consumer who spends all their income on two goods, x and Y. If the price of good x falls, and good x is a normal good, what will be the effect on the quantity demanded of good x?
(A) It will decrease due to the income effect.
(B) It will decrease due to the substitution effect.
(C) The effect is indeterminate without knowing the cross-price elasticity.
(D) It will increase due to both the substitution and income effects.

15. Consider the following statements about consumer surplus:
(i) It is the difference between what a consumer is willing to pay and what they actually pay.
(ii) It was conceptualized by Alfred Marshall.
(iii) For a perfectly discriminating monopolist, consumer surplus is maximized.
(iv) A lower price for a commodity generally leads to a higher consumer surplus.
Which of the above statements are correct?
(A) (i), (ii), and (iv)
(B) (i) and (iii) only
(C) (ii), (iii), and (iv)
(D) (i), (ii), and (iii)

16. Which axiom of the Revealed Preference theory states that if a consumer chooses bundle A over bundle B when both are affordable, they will not choose B over A in any other situation where both are also affordable?
(A) The axiom of transitivity.
(B) The Weak Axiom of Revealed Preference (WARP).
(C) The axiom of completeness.
(D) The Strong Axiom of Revealed Preference (SARP).

17. Given below are two statements regarding substitution effects. Read them and choose the correct option.
Statement I : The Hicksian substitution effect isolates the effect of a price change on quantity demanded by keeping the consumer's real income constant.

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Statement II : The Slutsky substitution effect isolates the effect of a price change by keeping the consumer's purchasing power constant, allowing them to buy the original bundle.

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

18. Identify the correct pair.
(A) Inferior Good - A good for which demand decreases as income increases.
(B) Veblen Good - An inferior good with a strong negative income effect.
(C) Giffen Good - A luxury good whose demand increases with price for status reasons.
(D) Normal Good - A good for which demand decreases as income increases.

19. An Income Consumption Curve (ICC) that is bending backwards towards the Y-axis indicates that:
(A) Good X is a normal good.
(B) Good Y is a normal good.
(C) Good X is an inferior good.
(D) Good Y is a Giffen good.

20. Consider the following statements about consumer behavior:
(i) An indifference curve represents combinations of goods that a consumer can afford.
(ii) The slope of the budget line is given by the ratio of the prices of the two goods.
(iii) The consumer reaches equilibrium when the marginal rate of substitution equals the price ratio.
(iv) All points on a budget line represent the same level of utility.
(v) The Revealed Preference Theory is based on cardinal utility.

Which of the above statement(s) is/are correct?
(A) (i), (ii), and (v)
(B) (ii) and (iii) only
(C) (i), (iii), and (iv)
(D) (ii), (iii), and (v)

21. A production function in economics represents:
(A) The economic relationship between the firm's total revenue and costs.
(B) The market relationship between the prevailing price and supply.
(C) The technological relationship between physical inputs and output.
(D) The firm's calculated demand for specific factors of production.

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22. What does the Law of Variable Proportions (or Law of Diminishing Returns) primarily analyze?
(A) The effect on output when all inputs are changed simultaneously in the firm.
(B) The effect on output when one input is varied while others remain constant.
(C) The relationship between short-run production costs and long-run scales.
(D) The choice of technology for achieving a predetermined level of firm output.

23. Which stage of production is considered the 'rational' or 'economic' stage for a producer?
(A) Stage I, where the average product is steadily increasing.
(B) Stage III, where the marginal product has become negative.
(C) Both Stage I and Stage III are optimal for the producer.
(D) Stage II, where the marginal product is positive but falling.

24. An isoquant that is a right-angled L-shape represents:
(A) Inputs that must be used in a fixed proportion.
(B) Inputs that are perfect substitutes.
(C) A production process with decreasing returns to scale.
(D) A production process with increasing returns to scale.

25. Arrange the following concepts related to utility theory in chronological order of their development.
1. Revealed Preference Theory
2. Cardinal Utility Analysis
3. Ordinal Utility Analysis (Indifference Curves)

Which of the following represents the correct sequence?
(A) 1, 2, 3
(B) 2, 3, 1
(C) 3, 2, 1
(D) 2, 1, 3

26. The Marginal Rate of Technical Substitution (MRTS) of labor for capital is defined as:
(A) The rate at which a firm substitutes labor for capital, holding output constant.
(B) The ratio of the prevailing wage rate to the rental rate of capital equipment.
(C) The change in total output resulting from a one-unit increase in labor input.
(D) The negative slope of the isocost line representing budget and input prices.

27. Identify the incorrect statement concerning cost curves.
(A) The marginal cost curve intersects the average variable cost curve at its minimum point.
(B) The average fixed cost curve is a rectangular hyperbola.
(C) The long-run average cost curve is the envelope of short-run average cost curves.
(D) The average total cost is always greater than the average variable cost.

28. The 'expansion path' in the theory of production connects:
(A) The minimum points of various short-run average cost curves.
(B) Points of tangency between isoquants and isocost lines.
(C) Points of tangency between indifference curves and budget lines.
(D) The various levels of output possible with a fixed budget.

29. If a firm's production function exhibits constant returns to scale, what will be the shape of its long-run average cost (LAC) curve?
(A) U-shaped.
(B) Downward sloping.
(C) Horizontal.
(D) Upward sloping.

30. Match the stages in List I with the characteristics in List II according to the Law of Variable Proportions.
List I: (Stage)
P. Stage I
Q. Stage II
R. Stage III
S. Point of Inflexion
List II: (Characteristic)
1. Marginal product is negative.
2. Marginal product is at its maximum.
3. Average product is falling, but marginal product is positive.
4. Average product is increasing and is less than marginal product.
(A) P-4, Q-3, R-1, S-2
(B) P-2, Q-1, R-3, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-4, R-2, S-1

31. In the short run, which of the following costs will NOT change as output changes?
(A) Total fixed cost.
(B) Average variable cost.
(C) Marginal cost.
(D) Total variable cost.

32. The envelope curve is another name for which of the following?
(A) Short-run marginal cost curve.
(B) Long-run average cost curve.
(C) Average fixed cost curve.
(D) Total product curve.

33. Given below are two statements regarding production theory. Read them and choose the correct option.
Statement I : Isoquants are convex to the origin because of the diminishing marginal rate of technical substitution.
Statement II : An isocost line represents the combinations of inputs that yield the same level of output.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

34. A Cobb-Douglas production function is given by $Q = AL^{\alpha} K^{\beta}$. The function will exhibit increasing returns to scale if:
(A) $\alpha + \beta > 1$
(B) $\alpha + \beta < 1$
(C) $\alpha + \beta = 1$
(D) $\alpha = \beta$

35. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : The Marginal Cost (MC) curve cuts the Average Cost (AC) curve at the

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minimum point of the AC curve.
Reason (R) : When MC is less than AC, AC falls, and when MC is greater than AC, AC rises.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

36. Ridge lines in an isoquant map separate:
(A) The regions of increasing and decreasing returns to scale.
(B) The short-run production stages from the long-run stages.
(C) Internal economies from internal diseconomies in the firm.
(D) The economically feasible from uneconomic production regions.

37. What is the primary difference between the short-run and the long-run in production theory?
(A) Short-run is under one year, whereas the long-run exceeds a single year.
(B) Technological progress can only be implemented during long-run production.
(C) In short-run, one factor is fixed; in long-run, all factors are variable.
(D) Firms can only achieve supernormal profits during the short-run period.

38. The condition for producer's equilibrium or cost minimization is given by:
(A) The slope of the isoquant is equal to the slope of the isocost line.
(B) All of the above.
(C) $MRTS_L K = M\frac{P_L}{M} P_K$
(D) $M\frac{P_L}{w} = M\frac{P_K}{r}$

39. Identify the correct pair of concepts.
(A) Economies of Scope - Advantages from increasing a single product's scale.
(B) Isocost Line - A curve showing inputs that produce the same output level.
(C) Expansion Path - The path showing how demand expands as income rises.
(D) Learning Curve - Decline in average cost with rising cumulative output.

40. Consider the following statements regarding production and costs:
(i) The law of variable proportions applies in the long run.
(ii) In the short run, the shape of the average total cost curve is primarily determined by the average fixed cost.
(iii) Constant returns to scale imply that a firm's long-run average cost is constant.
(iv) The marginal product of a variable input can be negative.
Which of the above statement(s) is/are correct?
(A) (i) and (ii)
(B) (iii) and (iv)
(C) (ii) and (iii)
(D) (i) and (iv)

41. Which of the following is an example of an implicit cost for a firm?
(A) Wages paid to employees.
(B) Payments for raw materials.
(C) Salary the owner could have earned by working for someone else.
(D) Rent paid for a factory building.

42. A firm's total cost function is TC = 100 + 10Q + $2Q^2$. What is the marginal cost when Q = 5?
(A) 30
(B) 20
(C) 175
(D) 10

43. Which of the following is NOT a property of isoquants?
(A) They are downward sloping.
(B) They are convex to the origin.
(C) Higher isoquants represent higher levels of output.
(D) Two isoquants can intersect.

44. Technological progress that is neutral is represented by:
(A) A change in the shape of the isoquants.
(B) A shift in the isoquant map inward.
(C) A movement along the expansion path.
(D) An increase in the slope of the isocost line.

45. Consider the following statements about cost concepts:
(i) Accounting profit is total revenue minus both explicit and implicit costs.

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(ii) Economic profit is total revenue minus only explicit costs.
(iii) Opportunity cost is the value of the next-best alternative forgone.
(iv) Sunk costs are relevant for future decision-making.
(v) Marginal cost is the addition to total fixed cost from producing one more unit.
Which of the above statement(s) is/are correct?
(A) (iii) only
(B) (i) and (iii)
(C) (ii), (iv), and (v)
(D) (iii) and (v)

46. What does the L-shape of the long-run average cost curve in some industries suggest?
(A) The firm experiences continuous diseconomies of scale.
(B) The firm's technology is characterized by fixed proportions.
(C) The firm experiences a typical U-shaped cost structure.
(D) Economies of scale exist up to a point, after which costs stay constant.

47. In a Cobb-Douglas production function $Q = A L^{\alpha} K^{\beta}$, the term '$\alpha$' represents:
(A) The output elasticity of labor.
(B) The total factor productivity.
(C) The output elasticity of capital.
(D) The returns to scale parameter.

48. A producer is said to be in equilibrium when they are producing a given level of output at the:
(A) Maximum possible cost.
(B) Least possible cost.
(C) Point where marginal product is maximized.
(D) Point where average product is maximized.

49. If an isoquant is a downward sloping straight line, it implies that the two inputs are:
(A) Perfect complements.
(B) Perfect substitutes.
(C) Independent of each other.
(D) Used in fixed proportions.

50. The difference between economic cost and accounting cost is equal to:
(A) Implicit costs.
(B) Explicit costs.
(C) Sunk costs.
(D) Marginal costs.

51. Match the attitudes towards risk in List I with the descriptions in List II and choose the correct option.
List I: (Attitude)
P. Risk Averse
Q. Risk Neutral
R. Risk Loving (Seeker)
S. Certainty Equivalent
List II: (Description)
1. Indifferent between a certain income and an uncertain income with the same expected value.
2. The guaranteed amount of money an individual would accept rather than take a risk.
3. Prefers an uncertain income to a certain income of the same expected value.
4. Prefers a certain income to an uncertain income with the same expected value.
(A) P-1, Q-3, R-4, S-2
(B) P-4, Q-1, R-3, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-1, R-3, S-4

52. An individual whose utility function of income is concave exhibits:
(A) Risk-loving behavior.
(B) Risk-neutral behavior.
(C) Irrational behavior.
(D) Risk-averse behavior.

53. Given below are two statements regarding decision-making under risk. Read them and choose the correct option.
Statement I : The expected utility is the sum of the utilities associated with all possible outcomes, weighted by the probability of each outcome.
Statement II : A risk-averse person has a diminishing marginal utility of income.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

54. The difference between the expected value of a gamble and its certainty equivalent is known as the:
(A) Expected utility.

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(B) Risk premium.
(C) Actuarial value.
(D) Standard deviation.

55. For a risk-neutral individual, the risk premium is:
(A) Positive.
(B) Negative.
(C) Infinite.
(D) Zero.

56. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : Diversification can reduce risk.
Reason (R) : The principle of diversification works because the returns on different assets are not perfectly positively correlated.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

57. Which of the following is NOT a method for reducing risk?
(A) Obtaining more information.
(B) Diversification.
(C) Increasing the variance of outcomes.
(D) Insurance.

58. Consider a lottery that pays Rs. 100 with a probability of 0.5 and Rs. 0 with a probability of 0.5. A risk-averse individual would pay how much for this lottery ticket?
(A) Less than Rs. 50.
(B) Exactly Rs. 50.
(C) More than Rs. 50.
(D) Exactly Rs. 100.

59. In the context of decision making under uncertainty, the 'maximin' criterion involves:
(A) Choosing the alternative that maximizes the maximum possible payoff.
(B) Choosing the alternative with the highest expected value.
(C) Choosing the alternative that minimizes the maximum regret.
(D) Choosing the alternative that maximizes the minimum possible payoff.

60. Identify the incorrect statement regarding attitudes towards risk.
(A) A risk-lover has an increasing marginal utility of income.
(B) A risk-averse person's utility function is convex.
(C) A risk-neutral person has a constant marginal utility of income.
(D) Insurance markets exist primarily due to risk-averse behavior.

61. Consider the following statements about decision-making under uncertainty:
(i) A risk-averse individual's utility of expected income is greater than their expected utility of income.
(ii) An individual with a linear utility function is risk-neutral.
(iii) Insurance works by pooling risks.
(iv) The value of complete information is the difference in expected payoff between having the information and not having it.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (ii), (iii), and (iv)
(C) (i), (iii), and (iv)
(D) (i), (ii), and (iv)

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62. The standard deviation is a measure of:
(A) Expected value.
(B) The central tendency of a probability distribution.
(C) The probability of an outcome.
(D) Risk or variability of payoffs.

63. An 'actuarially fair' insurance premium is one that is:
(A) Equal to the expected loss.
(B) Higher than the expected loss.
(C) Lower than the expected loss.
(D) Zero.

64. A person who is indifferent between a certain outcome and a risky prospect with the same expected value is described as:
(A) Risk-averse.
(B) Risk-neutral.
(C) Risk-seeking.
(D) Risk-premium.

65. Consider the following scenarios regarding risk:

(i) A person buys a lottery ticket hoping for a large prize, despite a low expected value.
(ii) An investor holds a portfolio of many different stocks instead of just one.
(iii) A homeowner buys fire insurance for their house.
(iv) A person's utility from an additional dollar decreases as their wealth increases.
Which of the above scenarios are associated with risk-averse behavior?
(A) (i) and (ii)
(B) (ii), (iii), and (iv)
(C) (i), (iii), and (iv)
(D) (i) and (iv) only

66. What do the concepts of players, strategies, and payoffs constitute in game theory?
(A) The rules of the game.
(B) The equilibrium of the game.
(C) The cooperative outcome.
(D) The zero-sum condition.

67. A dominant strategy is one that:
(A) Leads to the best possible outcome for both players combined.
(B) Can only be played in a sequential game.
(C) Is optimal for a player, no matter what the other player does.
(D) Is always chosen by the first mover.

68. The central feature of the Prisoner's Dilemma game is that:
(A) Players acting in self-interest leads to a collectively superior outcome for both.
(B) There is no Nash equilibrium possible within the structure of this game.
(C) One player has a dominant strategy, but the other does not have one.
(D) Players acting in self-interest leads to a collectively inferior outcome.

69. What is a Nash Equilibrium?
(A) An outcome that maximizes the combined total payoff to all participating players.
(B) An outcome where at least one player can improve their payoff via strategy change.
(C) Each player is doing the best they can, given the actions of their opponents.
(D) An outcome where both players adopt a dominant strategy, regardless of payoffs.

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70. Arrange the following oligopoly models in the chronological order of their development.
1. Bertrand Model
2. Cournot Model
3. Stackelberg Model
Which of the following represents the correct sequence?
(A) 2, 1, 3
(B) 1, 2, 3
(C) 2, 3, 1
(D) 3, 1, 2

71. In the Cournot model of duopoly, each firm assumes that its rival will:
(A) Keep its price constant.
(B) Match any price cut but not a price increase.
(C) Act as a leader and set output first.
(D) Keep its output constant.

72. In the Bertrand model of duopoly with identical products and constant marginal costs, the equilibrium price will be:
(A) Equal to the marginal cost.
(B) The monopoly price.
(C) Midway between the monopoly price and marginal cost.
(D) Indeterminate.

73. The Stackelberg model is different from the Cournot model because:
(A) The firms compete on price instead of quantity.
(B) It is a cooperative game.
(C) One firm acts as a leader and moves first.
(D) The products are differentiated.

74. A game where the gains of one player are exactly equal to the losses of the other player is known as a:
(A) Zero-sum game.
(B) Non-cooperative game.
(C) Positive-sum game.
(D) Prisoner's Dilemma.

75. Match the game theory concepts in List I with the descriptions in List II and choose the correct option.
List I: (Concept)
P. Dominant Strategy
Q. Nash Equilibrium
R. Prisoner's Dilemma

S. Maximin Strategy

List II: (Description)

1. A strategy profile where no player can benefit by unilaterally changing their strategy.
2. Maximizing the minimum possible payoff.
3. A strategy that is best for a player regardless of the opponent's choice.
4. A situation where individual rationality leads to collective irrationality.

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

76. Tit-for-tat is a strategy most commonly associated with which type of game?
(A) A single-period game.
(B) A repeated Prisoner's Dilemma.
(C) A zero-sum game.
(D) A sequential game with perfect information.

77. The key assumption in a non-cooperative game is that:
(A) Players aim to maximize their joint payoffs.
(B) The game has a zero-sum structure.
(C) Players cannot form binding agreements.
(D) All players have complete information.

78. The Cournot equilibrium, in comparison to a competitive equilibrium and a monopoly equilibrium, results in:
(A) A lower total output than both monopoly and perfect competition systems.
(B) A higher total output than both monopoly and perfect competition systems.
(C) The same total output level as a single-firm monopoly equilibrium.
(D) Higher total output than monopoly but lower than perfect competition.

79. Which of the following is NOT a necessary component of a game in strategic form?
(A) A sequential order of moves.
(B) A set of players.
(C) A set of strategies for each player.
(D) A payoff function for each player.

80. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In the Prisoner's Dilemma, confessing is a dominant strategy for both prisoners.
Reason (R) : Each prisoner knows that confessing will yield a better personal outcome, regardless of what the other prisoner does.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

81. A 'reaction curve' or 'reaction function' in the Cournot model shows:
(A) How a firm's profit reacts to changes in market price level.
(B) How much output a firm produces for each possible output level of its rival.
(C) How market demand reacts to a specific change in the firm's output.
(D) The price a firm should charge for each possible price charged by its rival.

82. In a sequential game, the concept of a 'credible threat' is crucial. A threat is credible only if:
(A) It is in the threatener's own interest to carry it out when the time comes.
(B) It is announced publicly by the player.
(C) It leads to the best possible outcome for the threatening player.
(D) It results in a Nash equilibrium.

83. The primary strategic variable in the Bertrand model is _____, whereas in the Cournot model it is _____.
(A) quantity; price
(B) advertising; price
(C) price; quantity
(D) quantity; advertising

84. What is the most likely outcome in a one-shot Bertrand duopoly game with homogeneous products and identical, constant marginal costs?
(A) Both firms charge the monopoly price and share the market.
(B) One firm charges the monopoly price, and the other exits the market.
(C) The firms collude to set a price above marginal cost but below the monopoly price.
(D) Both firms charge a price equal to marginal

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cost.

85. Consider the following characteristics of games:
(i) Players make decisions independently.
(ii) Binding contracts between players are not possible.
(iii) The primary focus is on individual payoffs.
(iv) The outcome is always Pareto optimal.
Which of the above statements correctly describe non-cooperative games?
(A) (i), (ii), and (iii)
(B) (i), (ii), and (iv)
(C) (ii), (iii), and (iv)
(D) (i), (iii), and (iv)

86. The leader in the Stackelberg model has a first-mover advantage because:
(A) The leader has lower production costs than the follower firm.
(B) The leader knows the follower's reaction function and uses it strategically.
(C) The leader sets the price level, and the follower must accept it.
(D) The leader's product is perceived as superior to the follower's.

87. Given below are two statements regarding game theory equilibrium. Read them and choose the correct option.
Statement I : Every game has at least one Nash Equilibrium in pure strategies.
Statement II : A dominant strategy equilibrium is always a Nash Equilibrium.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false, but Statement II is true.
(D) Statement I is true, but Statement II is false.

88. If a game has a saddle point, it means that:
(A) The maximin value is equal to the minimax value.
(B) The game has no equilibrium.
(C) Both players must use a mixed strategy.
(D) The game is non-zero-sum.

89. A mixed strategy in game theory refers to:
(A) A player choosing a specific action with absolute certainty.
(B) A combination of cooperative and non-cooperative market behavior.
(C) Randomly choosing actions based on a specific probability distribution.
(D) A strategy that mixes price and quantity competition variables.

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90. Consider the following statements about oligopoly models:
(i) The Cournot model assumes firms choose quantities simultaneously.
(ii) The Bertrand model with differentiated products results in a price equal to marginal cost.
(iii) The Stackelberg model is a sequential game.
(iv) The Prisoner's Dilemma illustrates why collusion can be difficult to maintain.
(v) A reaction function shows how a player reacts to the payoff they receive.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iv)
(B) (ii), (iii), and (v)
(C) (i), (iii), and (iv)
(D) (i), (iv), and (v)

91. The primary defining characteristic of a perfectly competitive market is:
(A) A small number of large firms.
(B) Product differentiation.
(C) Significant barriers to entry.
(D) Firms are price takers.

92. In the short-run, a perfectly competitive firm will shut down if the market price is:
(A) Less than average total cost.
(B) Less than average variable cost.
(C) Equal to marginal cost.
(D) Less than average fixed cost.

93. The long-run equilibrium in a perfectly competitive market is characterized by all of the following ExCEPT:
(A) P = MC (Allocative Efficiency)
(B) P = minimum ATC (Productive Efficiency)
(C) Firms earning positive economic profits.
(D) Free entry and exit of firms.

94. What is the source of a natural monopoly?
(A) Government-granted patents and licenses.
(B) Sole ownership of a key natural resource.
(C) Aggressive and anti-competitive business practices.
(D) The presence of significant and persistent economies of scale.

95. Match the market structures in List I with the key features in List II and choose the correct option.
List I: (Market Structure)
P. Perfect Competition
Q. Monopoly
R. Monopolistic Competition
S. Oligopoly
List II: (Key Feature)
1. Strategic interdependence among firms.
2. Many firms, differentiated products, free entry.
3. Single seller, unique product, high barriers to entry.
4. Many firms, homogeneous product, price takers.
(A) P-4, Q-3, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-3, S-4

96. Price discrimination is the practice of selling the same good:
(A) In different markets at the same fixed price.
(B) To customers at different prices for reasons not related to cost.
(C) At a price below marginal cost to drive out all competitors.
(D) At a price equal to average total cost to maximize share.

97. The demand curve faced by a single firm in a perfectly competitive market is:
(A) Perfectly inelastic.
(B) Perfectly elastic.
(C) Unit elastic.
(D) Downward sloping.

98. A key feature of monopolistic competition that distinguishes it from perfect competition is:
(A) Product differentiation.
(B) The number of firms in the market.
(C) The existence of barriers to entry.
(D) The long-run profitability of firms.

99. The kinked demand curve model of oligopoly attempts to explain:
(A) Price leadership.
(B) The process of cartel formation.
(C) Price rigidity in oligopolistic markets.
(D) The output levels in a Cournot duopoly.

100. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : A monopolist does not have a unique supply curve.
Reason (R) : For a monopolist, the price and quantity supplied are determined simultaneously by marginal cost, marginal revenue, and the demand curve, and there is no one-to-one relationship between price and quantity supplied.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

101. Which condition must be met for a firm to practice third-degree price discrimination?
(A) The products sold in different markets must be heterogeneous in nature.
(B) The cost of producing for each market segment must be distinctly different.
(C) The firm must segment the market into groups with different price elasticities.
(D) Resale between the market segments must be possible and easily facilitated.

102. In a monopolistically competitive market, long-run equilibrium is achieved when:
(A) Price equals marginal cost.
(B) The firm's demand curve is tangent to its average total cost curve.
(C) Price equals the minimum of the average total cost curve.
(D) Firms are earning substantial economic profits.

103. The deadweight loss of monopoly refers to the:
(A) Portion of consumer surplus that is transferred to the monopolist as profit.
(B) Cost of advertising undertaken by the monopolist to maintain its position.
(C) Excess profit earned by the monopolist in the long run market.
(D) Net loss of total surplus due to monopolistic pricing inefficiency.

104. Which of the following is NOT a characteristic of an oligopolistic market?
(A) Firms are independent of each other.

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(B) A few firms dominate the market.
(C) There are significant barriers to entry.
(D) Products may be either homogeneous or differentiated.

105. Consider the following statements regarding efficiency in different market structures:
(i) Perfect competition achieves both allocative and productive efficiency in the long run.
(ii) Monopoly results in allocative inefficiency because price is greater than marginal cost.
(iii) Monopolistic competition results in productive inefficiency in the long run due to excess capacity.
(iv) Oligopolies always lead to efficient outcomes due to intense competition.
Which of the above statement(s) is/are correct?
(A) (i) and (ii) only
(B) (i), (ii), and (iii)
(C) (iii) and (iv) only
(D) All of the above

106. In the kinked demand curve model, the discontinuity in the marginal revenue curve is responsible for:
(A) The tendency for prices to be stable even when costs change.
(B) The firm's decision to produce where P > MC.
(C) The existence of supernormal profits in the long run.
(D) The incentive for firms to form a cartel.

107. Excess capacity in monopolistic competition means that in the long run, firms produce at an output level that is:
(A) Greater than the output level corresponding to the minimum average total cost.
(B) Equal to the output level corresponding to the minimum average total cost.
(C) The point where marginal revenue equals zero for the producing firm.
(D) Less than the output level corresponding to the minimum average total cost.

108. A monopolist will maximize profit by producing the quantity of output where:
(A) Price equals marginal cost.
(B) Marginal revenue equals marginal cost.
(C) Price equals average total cost.
(D) Total revenue is maximized.

109. Given below are two statements regarding supply curves in different market structures. Read them and choose the correct option.
Statement I : In perfect competition, the firm's short-run supply curve is its marginal cost curve above the minimum point of the average variable cost curve.
Statement II : In monopoly, the firm's supply curve is its entire marginal cost curve.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

110. Consider the following statements about market structures:
(i) A perfectly competitive firm is a price taker.
(ii) A monopolist can charge any price it wants without any constraint.
(iii) Product differentiation is a key feature of monopolistic competition.
(iv) Strategic interaction is a defining characteristic of oligopoly.
(v) Barriers to entry are low in a monopoly.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (ii), (iv), and (v)
(C) (i), (iii), and (iv)
(D) (i), (iii), and (v)

111. What is meant by 'non-price competition', which is common in monopolistic competition and oligopoly?
(A) Competing through advertising, branding, and product quality.
(B) Competing by lowering the price below the competitor's price.
(C) Forming a cartel to fix prices and output.
(D) Selling products at a price equal to marginal cost.

112. Perfect price discrimination (first-degree) is a situation where the monopolist:
(A) Charges a different price for different blocks of output.
(B) Charges each customer the maximum price they are willing to pay.
(C) Divides customers into groups and charges a different price to each group.
(D) Sells the product at the same price to all customers but includes different features.

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113. The allocative efficiency of a market is achieved when:
(A) Firms are earning zero economic profit.
(B) The price of the product is equal to the marginal cost of producing it.
(C) Production occurs at the minimum point of the long-run average cost curve.
(D) The market is dominated by a single, highly efficient firm.

114. The shutdown point for a competitive firm occurs at the price where:
(A) The average revenue is equal to the average variable cost.
(B) The total revenue is equal to the total cost.
(C) The price is equal to the average fixed cost.
(D) The marginal revenue is equal to the average total cost.

115. Arrange the following market structures in descending order of the price they would typically charge for their product, assuming similar cost conditions.
1. Perfect Competition
2. Monopoly
3. Monopolistic Competition

Which of the following represents the correct sequence?
(A) 2, 3, 1
(B) 1, 3, 2
(C) 2, 1, 3
(D) 3, 2, 1

116. Productive efficiency is achieved when a good is produced:
(A) Where price equals marginal cost.
(B) Where consumer and producer surplus are maximized.
(C) By a large number of small firms.
(D) At the lowest possible cost.

117. Identify the incorrect pair.
(A) Perfect Competition - Allocatively efficient
(B) Monopolistic Competition - Excess capacity
(C) Monopoly - Productively efficient
(D) Oligopoly - Kinked demand curve

118. Which market structure is characterized by a large number of firms selling differentiated products with free entry and exit?
(A) Perfect Competition
(B) Monopolistic Competition
(C) Monopoly
(D) Oligopoly

119. A cartel is a form of collusion where firms in an oligopoly:
(A) Compete aggressively on price variables.
(B) Follow the price set by a dominant firm.
(C) Engage in extensive non-price competition.
(D) Act together as a single monopolist to maximize joint profits.

120. Match the models in List I with the key variables in List II and choose the correct option.
List I: (Model)
P. Cournot Model
Q. Bertrand Model
R. Stackelberg Model
S. Kinked Demand Curve Model
List II: (Key Variable)
1. Price rigidity
2. Quantity (sequential moves)
3. Price
4. Quantity (simultaneous moves)
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-2, R-3, S-1
(D) P-1, Q-3, R-2, S-4

121. The long-run equilibrium of a monopolistically competitive firm is inefficient compared to perfect competition because:
(A) The firm earns supernormal profits.
(B) There are significant barriers to entry preventing new firms from competing.
(C) Price is greater than marginal cost, and production is not at minimum cost.
(D) Firms do not engage in research and development.

122. Under which condition would a monopolist produce the socially optimal level of output?
(A) If it is forced to price at the point where $P = MC$.
(B) If it is forced to price at the point where MR = MC.
(C) If it is allowed to practice perfect price discrimination.
(D) If it is forced to produce where P = minimum ATC.

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123. The 'Lerner Index' is a measure of:
(A) Market concentration.
(B) Price elasticity of demand.
(C) Economies of scale.
(D) Monopoly power.

124. What is the formula for the Lerner Index of monopoly power?
(A) $M\frac{R}{M}C$
(B) $\frac{P-MC}{P}$
(C) $\frac{P-ATC}{P}$
(D) $\frac{P}{P-MC}$

125. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In monopolistic competition, there is a trade-off between product variety and efficiency.
Reason (R) : The product differentiation that consumers value leads to firms operating with excess capacity and pricing above marginal cost.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

126. Which of these is a form of non-price competition?
(A) Predatory pricing.
(B) Offering a buy one, get one free deal.
(C) Price matching guarantees.
(D) Extensive advertising campaigns.

127. A key reason for the instability of cartels is that:
(A) Each member has an incentive to cheat on the agreement to increase its own profit.
(B) It is illegal in most countries.
(C) The costs of production are different for each member.
(D) Demand for the cartel's product is highly elastic.

128. If a perfectly competitive industry is a constant-cost industry, its long-run supply curve will be:
(A) Upward sloping.
(B) Perfectly elastic (horizontal).
(C) Downward sloping.
(D) Perfectly inelastic (vertical).

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129. The deadweight loss under monopoly is higher when:
(A) Demand is more elastic.
(B) Demand is more inelastic.
(C) The monopolist is productively efficient.
(D) The government imposes a price ceiling.

130. Consider the following statements regarding market structures and their efficiency:
(i) A perfectly competitive market leads to Pareto efficiency in the long run.
(ii) A monopoly leads to deadweight loss because it restricts output.
(iii) Monopolistic competition is inefficient because price equals marginal cost.
(iv) Oligopolies can sometimes lead to outcomes closer to competition if firms engage in price wars.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iv)
(B) (i) and (iii) only
(C) (ii), (iii), and (iv)
(D) (i), (ii), and (iii)

131. Price leadership, where one firm in an oligopoly sets the price and others follow, can be of which type?
(A) Barometric, where one firm acts as a market 'barometer'.
(B) Dominant, where the largest firm sets the price.
(C) All of the above.
(D) Collusive, where firms explicitly agree on a leader.

132. A natural monopoly exists when a single firm can supply the entire market at a lower average cost than two or more firms. This is due to:
(A) Legal barriers to entry.
(B) Diseconomies of scale.
(C) A perfectly inelastic demand curve.
(D) Pervasive economies of scale.

133. The short-run supply curve of a perfectly competitive firm is represented by:
(A) Its entire marginal cost curve.
(B) The rising portion of its marginal cost curve.

(C) The portion of its marginal cost curve that lies above the minimum point of its average variable cost curve.
(D) The portion of its marginal cost curve that lies above the minimum point of its average total cost curve.

134. Identify the correct statement about a monopolist's revenue.
(A) Marginal revenue is always equal to price.
(B) Marginal revenue can become negative.
(C) The marginal revenue curve lies above the average revenue (demand) curve.
(D) Total revenue is maximized when marginal revenue is at its maximum.

135. Consider the following conditions regarding price discrimination:
(i) The firm must have some market power.
(ii) The firm must be able to identify and separate different market segments.
(iii) The price elasticities of demand must be the same across segments.
(iv) Arbitrage or resale between segments must be prevented.
(v) The firm must be in a perfectly competitive market.
Which of the above statement(s) is/are correct for successful price discrimination?
(A) (i), (ii), and (iv)
(B) (i), (iii), and (iv)
(C) (ii), (iv), and (v)
(D) (i), (ii), and (v)

136. In the long run, a firm in a monopolistically competitive industry produces a quantity where:
(A) P > MC and P = ATC
(B) P = MC and P = minimum ATC
(C) P > MC and P > minimum ATC
(D) P = MC and P > minimum ATC

137. The concept of 'contestability' in market theory suggests that:
(A) Firms will always contest each other through price wars in the market.
(B) Only perfectly competitive markets can be truly contestable over time.
(C) Markets with few firms can behave competitively if entry and exit are costless.
(D) Monopoly power is always directly proportional to the total number of firms.

138. Which of the following market structures guarantees neither productive nor allocative efficiency in the long run?
(A) All market structures except perfect competition.
(B) Perfect competition only.
(C) Monopoly and Monopolistic Competition.
(D) Oligopoly only.

139. If an oligopolistic industry organizes itself as a cooperating cartel, it will produce a quantity of output that is _____ and charge a price that is _____ than in a competitive market.
(A) larger; lower
(B) smaller; lower
(C) larger; higher
(D) smaller; higher

140. Match the terms in List I with the associated market structures in List II and choose the correct option.
List I: (Term)
P. Price Taker
Q. Kinked Demand Curve
R. Product Differentiation
S. Natural Monopoly
List II: (Associated Market Structure)
1. Oligopoly
2. Monopolistic Competition
3. Monopoly
4. Perfect Competition
(A) P-4, Q-1, R-2, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-1, Q-4, R-2, S-3
(D) P-4, Q-1, R-3, S-2

141. The social cost of monopoly power is reflected in the:
(A) High prices charged to consumers.
(B) Supernormal profits earned by the monopolist.
(C) Deadweight loss.
(D) Lack of product innovation.

142. A two-part tariff is a pricing strategy where:
(A) The price is different for two different groups of consumers in the market.
(B) The price per unit depends on the quantity purchased by the individual.
(C) Two products are sold together in a bundle for a single fixed price.

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(D) Consumers pay an initial entry fee and then a per-unit price for the good.

143. Which of the following is the best example of a good sold in a monopolistically competitive market?
(A) Restaurants.
(B) Wheat.
(C) Tap water.
(D) Crude oil.

144. In a perfectly competitive, increasing-cost industry, the long-run industry supply curve is:
(A) Horizontal.
(B) Upward-sloping.
(C) Vertical.
(D) Downward-sloping.

145. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : A perfectly competitive firm earns only normal profit in the long run.
Reason (R) : The freedom of entry and exit of firms ensures that any supernormal profits are competed away by new entrants.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

146. A monopolist engaging in perfect (first-degree) price discrimination will:
(A) Capture all consumer surplus as producer surplus.
(B) Produce the same quantity as a single-price monopolist.
(C) Create a larger deadweight loss than a single-price monopolist.
(D) Charge the same price to all consumers.

147. A primary difference between the long-run equilibrium in perfect competition and monopolistic competition is that:
(A) Perfectly competitive firms earn economic profits, while monopolistically competitive firms do not.
(B) Price equals marginal cost in monopolistic competition but not in perfect competition.
(C) Monopolistically competitive firms operate at a point of excess capacity.
(D) There are no barriers to entry in perfect competition, but there are in monopolistic competition.

148. The demand for a factor of production is a:
(A) Direct demand.
(B) Joint demand.
(C) Autonomous demand.
(D) Derived demand.

149. According to the Marginal Productivity Theory of Distribution, a firm will hire a factor of production up to the point where:
(A) The factor's price equals its marginal physical product.
(B) The average product of the factor is maximized.
(C) The factor's price equals its marginal revenue product.
(D) The total product of the factor is maximized.

150. Consider the following statements about factor pricing:
(i) The demand for a factor depends on its marginal productivity.
(ii) In a competitive market, the price of a factor is determined by the intersection of its demand and supply curves.
(iii) Marginal Revenue Product (MRP) is Marginal Physical Product (MPP) multiplied by the price of the output (P).
(iv) The supply curve of labor is always upward sloping.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (i) and (ii) only
(C) (ii), (iii), and (iv)
(D) All of the above

151. The Marginal Revenue Product (MRP) of a factor is:
(A) The change in total output resulting from employing one more unit of the factor.
(B) The change in total cost resulting from employing one more unit of the factor.
(C) The price of the factor divided by its marginal product in the firm's model.
(D) The change in total revenue resulting from employing one more unit of the factor.

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152. In a perfectly competitive factor market, the firm's demand curve for a single variable factor is its:
(A) Marginal Revenue Product (MRP) curve.
(B) Average Revenue Product (ARP) curve.
(C) Marginal Physical Product (MPP) curve.
(D) Total Revenue Product (TRP) curve.

153. A backward-bending supply curve of labor indicates that at higher wage rates:
(A) The substitution effect outweighs the income effect.
(B) The substitution effect and income effect are equal.
(C) The income effect outweighs the substitution effect.
(D) The worker is no longer rational.

154. Economic rent is defined as:
(A) The payment to a factor of production in excess of its opportunity cost.
(B) The payment made for the use of land.
(C) The total earnings of a factor of production.
(D) The profit earned by a landlord.

155. Consider the following statements about factor pricing:
(i) A firm's demand for a factor is a derived demand.
(ii) The value of marginal product (VMP) equals P x MPP.
(iii) In perfect competition, a firm hires a factor until VMP equals the factor price.
(iv) A monopsonist pays a factor its marginal revenue product.
(v) Quasi-rent is a long-run phenomenon.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (ii), (iii), and (iv)
(C) (i), (iv), and (v)
(D) (i), (ii), and (v)

156. The Ricardian theory of rent is based on the assumption that land:
(A) Is homogeneous in quality.
(B) Varies in fertility.
(C) Has alternative uses.
(D) Is perfectly elastic in supply.

157. Given below are two statements regarding quasi-rent. Read them and choose the correct option.
Statement I : Quasi-rent is the surplus earned by a factor of production, other than land, whose supply is fixed in the short run.
Statement II : In the long run, quasi-rent disappears.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

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158. The concept of 'liquidity preference' is central to which theory of interest?
(A) The Classical Theory of Interest.
(B) The Loanable Funds Theory of Interest.
(C) The Abstinence Theory of Interest.
(D) Keynes's Liquidity Preference Theory of Interest.

159. What is a monopsony in a factor market?
(A) A single buyer of a factor.
(B) A single seller of a factor.
(C) A few large buyers of a factor.
(D) A government-regulated factor market.

160. Arrange the following theories of profit in chronological order of their primary proponent.
1. Risk-Bearing Theory (Hawley)
2. Innovation Theory (Schumpeter)
3. Uncertainty-Bearing Theory (Knight)
Which of the following represents the correct sequence?
(A) 1, 2, 3
(B) 2, 1, 3
(C) 1, 3, 2
(D) 3, 1, 2

161. In a monopsonistic labor market, compared to a competitive labor market, the wage rate will be _____ and the level of employment will be _____.
(A) higher; higher
(B) lower; lower
(C) higher; lower
(D) lower; higher

162. According to Frank Knight's theory, profit is a reward for:
(A) Bearing non-insurable uncertainty.
(B) Taking risks.
(C) Innovation and entrepreneurship.
(D) Managerial efficiency.

163. The addition to total revenue from selling the output produced by one additional unit of a factor is called:
(A) Value of Marginal Product (VMP).
(B) Average Revenue Product (ARP).
(C) Marginal Revenue Product (MRP).
(D) Marginal Physical Product (MPP).

164. In a perfectly competitive output market, a firm's MRP_L is equal to its VMP_L because:
(A) Marginal Product (MP) is constant.
(B) The wage rate (w) is constant.
(C) The firm is a price taker in the factor market.
(D) Marginal Revenue (MR) is equal to Price (P).

165. Match the theories of distribution in List I with the proponents in List II and choose the correct option.
List I: (Theory of Distribution)
P. Marginal Productivity Theory
Q. Theory of Rent
R. Liquidity Preference Theory
S. Innovation Theory of Profit
List II: (Proponent)
1. David Ricardo
2. J. M. Keynes
3. Joseph Schumpeter
4. J.(b) Clark
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

166. A factor of production earns pure economic rent when its supply is:
(A) Perfectly elastic.
(B) Perfectly inelastic.
(C) Unitary elastic.
(D) Backward bending.

167. Identify the incorrect statement regarding factor pricing.
(A) A firm's demand curve for labor shifts right if output price increases.
(B) A monopsonist faces an upward-sloping supply curve of labor units.
(C) A bilateral monopoly exists when a monopsonist faces a monopolist.
(D) In a competitive labor market, marginal factor cost is less than the wage.

168. According to the Loanable Funds Theory, the rate of interest is determined by the:
(A) Demand for and supply of loanable funds.
(B) Demand for and supply of money.
(C) Demand for and supply of capital.
(D) Saving and investment decisions only.

169. Schumpeter's theory of profit attributes profit to:
(A) The reward for bearing uninsurable risks.
(B) The exploitation of labor.
(C) The reward for successful innovation.
(D) The ownership of capital.

170. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In a monopsonistic labor market, the marginal factor cost (MFC) curve lies above the average factor cost (supply) curve.
Reason (R) : To hire an additional worker, the monopsonist must pay a higher wage not only to the new worker but to all existing workers as well.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

171. The adding-up problem or Euler's theorem in the context of factor pricing addresses the question of whether:
(A) The firm is successfully maximizing its total economic profit.
(B) All factors of production are currently fully employed in the economy.
(C) The actual distribution of income among all members of society is equitable.
(D) The sum of factor payments according to marginal products exhausts total product.

172. The substitution effect of a wage increase encourages a worker to:
(A) Work less, as leisure is now relatively cheaper.
(B) Work more, as the opportunity cost of leisure has increased.
(C) Save more of their income.
(D) Spend more on consumption goods.

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173. What is the fundamental difference between risk and uncertainty according to Frank Knight?
(A) Risk is purely subjective while uncertainty remains objective in nature.
(B) Risk applies to financial markets, while uncertainty applies to production.
(C) Risk involves known probabilities, while uncertainty involves unknown probabilities.
(D) There is no fundamental difference; both terms are used interchangeably.

174. A transfer earning for a factor of production is:
(A) The income transferred from the government to the factor owner.
(B) The surplus payment over and above the minimum required payment.
(C) The total income earned by the factor.
(D) The minimum payment required to keep the factor in its current use.

175. Consider the following statements about the Marginal Productivity Theory of Distribution:
(i) It assumes perfect competition in both product and factor markets.
(ii) It provides an explanation for the determination of factor prices.
(iii) It is based on the law of diminishing marginal returns.
(iv) It assumes factors of production are homogeneous and perfectly divisible.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (ii), (iii), and (iv)
(C) (i), (iii), and (iv)
(D) All of the above.

176. General Equilibrium Analysis differs from Partial Equilibrium Analysis in that it:
(A) Focuses on a single market in isolation from all other economic factors.
(B) Considers interrelationships and feedbacks among all markets simultaneously.
(C) Assumes that prices in all other markets are held perfectly constant.
(D) Is only applicable to economies that are centrally planned by authorities.

177. The concept of General Equilibrium is most closely associated with which economist?
(A) Alfred Marshall
(B) Leon Walras
(C) John Maynard Keynes
(D) Adam Smith

178. Consider the following conditions for a Walrasian General Equilibrium:
(i) All consumers maximize utility subject to their budget constraints.
(ii) All firms maximize profits subject to their production technology.
(iii) All markets (for goods and factors) are clear, meaning supply equals demand.
(iv) The economy is on its production possibility frontier.
Which of the above statement(s) is/are correct?
(A) (i) and (ii) only
(B) (i), (ii), and (iii)
(C) (iii) and (iv) only
(D) All of the above

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179. Walras's Law states that:
(A) If all markets but one are in equilibrium, then the last market must also be in equilibrium.
(B) Every economy has a unique general equilibrium.
(C) The total value of excess demand in the economy must be zero.
(D) The supply of every good creates its own demand.

180. The Edgeworth Box is a graphical tool used to analyze:
(A) The equilibrium of a single firm.
(B) The initial endowment of goods for each individual.
(C) The relationship between inflation and unemployment.
(D) The distribution of goods between two individuals or inputs between two production functions.

181. In an Edgeworth Box diagram for consumption, the contract curve represents:
(A) All possible allocations of goods between two individuals.
(B) The initial endowment of goods for each individual.
(C) All allocations where the individuals' indifference curves are tangent.
(D) The set of allocations that are an improvement for one individual but not the

other.

182. A key component of the standard 2x2x2 general equilibrium model is:
(A) Two countries, two goods, two factors.
(B) Two consumers, two goods, two factors of production.
(C) Two consumers, two goods, two firms.
(D) Two periods, two goods, two consumers.

183. Consider the following statements about General Equilibrium Analysis:
(i) It explicitly accounts for feedback effects between markets.
(ii) The existence of a general equilibrium was formally proven by Arrow and Debreu.
(iii) Walras's Law implies that it is impossible for all markets to have excess supply.
(iv) The Edgeworth box can be used to illustrate the concept of Pareto efficiency.
(v) General equilibrium analysis is a short-run concept.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iv)
(B) (ii), (iii), and (v)
(C) (i), (iii), and (iv)
(D) (i), (ii), and (v)

184. The Production Possibility Frontier (PPF) is derived from:
(A) The contract curve in an Edgeworth box for production.
(B) The Engel curves of the consumers.
(C) The sum of the individual firms' supply curves.
(D) The social welfare function.

185. Match the concepts in List I with the descriptions in List II and choose the correct option.
List I: (Concept)
P. Walras' Law
Q. Edgeworth Box
R. Contract Curve
S. Production Possibility Frontier
List II: (Description)
1. Shows the maximum combinations of two goods that can be produced with given resources and technology.
2. The locus of all Pareto efficient allocations.
3. The sum of the values of excess demands across all markets is zero.
4. A graphical tool for analyzing the exchange between two individuals.
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-4, R-2, S-3

186. The condition for efficiency in production in a general equilibrium framework is that:
(A) The Marginal Rate of Technical Substitution between any two inputs is equal for all firms.
(B) The Marginal Rate of Substitution (MRS) for all consumers in the market is perfectly equal.
(C) The Marginal Rate of Technical Substitution is the same for all firms producing different goods.
(D) The Marginal Rate of Transformation (MRT) equals the Marginal Rate of Substitution (MRS).

187. The overall condition for Pareto efficiency in a general equilibrium (efficiency in product mix) is:
(A) MRTS_LK (for good X) = MRTS_LK (for good Y)
(B) MRS_xy (for consumer A) = MRS_xy (for consumer B)
(C) $\frac{P_x}{P_y} = M\frac{C_x}{M}C_y$
(D) $MRS_x y = MRT_x y$

188. What does the existence question in general equilibrium theory refer to?
(A) Whether a given economy will exist in the long run.
(B) Whether a set of prices exists that will clear all markets simultaneously.
(C) Whether the equilibrium, if it exists, is socially desirable.
(D) Whether the equilibrium is stable over time.

189. The uniqueness question in general equilibrium theory asks:
(A) Whether there is only one Pareto efficient allocation.
(B) Whether the model applies to a unique type of economy.
(C) Whether there is only one set of equilibrium prices.
(D) Whether each consumer has a unique set of

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preferences.

190. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : Any point on the contract curve in an Edgeworth Box is Pareto efficient.
Reason (R) : At any point on the contract curve, it is impossible to make one person better off without making the other person worse off.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

191. The stability of a general equilibrium refers to whether the economy:
(A) Will return to equilibrium after a small shock or disturbance.
(B) Is growing at a steady rate.
(C) Is free from business cycles.
(D) Has a stable price level (zero inflation).

192. The slope of the Production Possibility Frontier (PPF) at any point is the:
(A) Marginal Rate of Substitution (MRS).
(B) Marginal Rate of Transformation (MRT).
(C) Marginal Rate of Technical Substitution (MRTS).
(D) Ratio of factor prices.

193. Partial equilibrium analysis is appropriate when:
(A) All markets in the economy are closely linked.
(B) The effects of a change in one market on other markets are small and can be ignored.
(C) The market being studied is large relative to the overall economy.
(D) The economy is in a state of flux.

194. In the context of general equilibrium, the process of 'tâtonnement' described by Walras refers to:
(A) A hypothetical auctioneer adjusting prices to find a market-clearing equilibrium point.
(B) The way firms adjust their production levels according to market demand and costs.
(C) The way consumers adjust their consumption bundles based on income and preferences.
(D) The long-run process of capital accumulation occurring across multiple industries.

195. Consider the following statements about general equilibrium:
(i) It assumes that markets are perfectly competitive.
(ii) It provides a framework for understanding the economy as a whole.
(iii) The conditions for a general equilibrium ensure an equitable distribution of income.
(iv) The slope of the PPF represents the opportunity cost of producing one good in terms of the other.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii)
(B) (ii), (iii), and (iv)
(C) (i), (ii), and (iv)
(D) All of the above

196. The condition for efficiency in exchange is that the marginal rates of substitution for any two goods:
(A) Are equal to the price ratio.
(B) Sum to one for all consumers.
(C) Are maximized for all consumers.
(D) Are equal for all consumers.

197. A move from a point off the contract curve to a point on the contract curve is:
(A) Always a Pareto improvement.
(B) Never a Pareto improvement.
(C) Potentially a Pareto improvement.
(D) A move that hurts both parties.

198. The 2x2x2 model in trade theory (Heckscher-Ohlin model) is an application of:
(A) Partial equilibrium analysis.
(B) General equilibrium analysis.
(C) Game theory.
(D) Decision theory under uncertainty.

199. Consider the following statements regarding the contract curve and the utility possibility frontier:
(i) Every point on the contract curve corresponds to a point on the utility possibility frontier.
(ii) The utility possibility frontier shows the maximum utility one person can achieve for any given level of utility for the other person.

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(iii) Moving along the contract curve involves a trade-off between the two individuals' utilities.
(iv) All points on the utility possibility frontier are equally desirable from a social point of view.
Which of the above statement(s) is/are correct?
(A) (i) and (iv)
(B) (ii) and (iii)
(C) (i), (ii), and (iii)
(D) All of the above

200. Consider the following statements about the general competitive equilibrium:
(i) It satisfies the three conditions for Pareto efficiency: efficiency in exchange, production, and product mix.
(ii) It guarantees that the resulting income distribution is fair.
(iii) It is described by a single price for each good and factor.
(iv) Walras' Law is a key property of the system of equations that defines the equilibrium.
(v) The equilibrium is always unique and stable.
Which of the above statement(s) is/are correct?
(A) (i), (iii), and (iv)
(B) (ii), (iv), and (v)
(C) (i), (ii), and (v)
(D) (i), (iii), and (v)

201. An allocation of resources is said to be Pareto Optimal if:
(A) It is possible to make someone better off without making anyone else worse off.
(B) The distribution of income is perfectly equal.
(C) It is impossible to make someone better off without making someone else worse off.
(D) The total welfare of society is maximized.

202. The Kaldor-Hicks compensation criterion suggests that a change is an improvement if:
(A) The winners could fully compensate the losers and still be better off.
(B) The winners actually do compensate the losers.
(C) No one is made worse off by the change.
(D) The change leads to a more equal distribution of income.

203. Which of the following is a limitation of the Pareto optimality criterion?
(A) It is difficult to apply in practice.
(B) It is unable to compare many different resource allocations because it avoids interpersonal comparisons of utility.
(C) It prioritizes efficiency over equity completely.
(D) Both (B) and (C).

204. Consider the following statements about efficiency criteria:
(i) Pareto optimality is a weak criterion as it cannot rank many states.
(ii) The Kaldor-Hicks criterion is also known as the potential Pareto improvement criterion.
(iii) The Scitovsky criterion was developed to address a potential paradox in the Kaldor-Hicks criterion.
(iv) Wealth maximization, as proposed by Posner, suggests that the policy that maximizes the total value of goods and services is best.
(v) The Kaldor-Hicks criterion requires that compensation actually be paid.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (v)
(B) (ii), (iii), and (iv)
(C) (i), (ii), (iii), and (iv)
(D) (i), (iii), and (v)

205. The wealth maximization criterion, often associated with Richard Posner, states that the best policy is one that:
(A) Maximizes the wealth of the poorest members of society in a systematic manner.
(B) Ensures an equal distribution of wealth among all citizens of the entire state.
(C) Maximizes the total monetary value of society's resources, regardless of distribution.
(D) Maximizes the utility of the median individual in the economy's population.

206. Given below are two statements regarding Pareto and Kaldor-Hicks criteria. Read them and choose the correct option.
Statement I : A change that is a Pareto improvement is also necessarily an improvement under the Kaldor-Hicks criterion.
Statement II : A change that is an improvement under the Kaldor-Hicks criterion is also

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necessarily a Pareto improvement.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

207. A primary critique of the Kaldor-Hicks criterion is that:
(A) It ignores distributional consequences because the compensation is only potential, not actual.
(B) It is too difficult to calculate the potential compensation.
(C) It leads to the same outcome as Pareto optimality in all cases.
(D) It is only applicable in economies with two goods and two people.

208. The Scitovsky Paradox (or reversal test) points out that:
(A) Wealth maximization can lead to a decrease in social welfare outcomes.
(B) A move from A to B may be approved by Kaldor, while a move from B to A is also approved.
(C) Pareto improvements are impossible in the real world due to transaction costs.
(D) Social welfare functions are always inconsistent when aggregating preferences.

209. Arrange the following welfare criteria in chronological order of their conceptualization.
1. Kaldor-Hicks Criterion
2. Pareto Optimality
3. Scitovsky's Double Criterion

Which of the following represents the correct sequence?
(A) 2, 1, 3
(B) 1, 2, 3
(C) 3, 2, 1
(D) 2, 3, 1

210. Which efficiency criterion is most closely aligned with the concept of cost-benefit analysis?
(A) Kaldor-Hicks Criterion
(B) Pareto Optimality
(C) Rawlsian Criterion
(D) Arrow's Impossibility Theorem

211. Identify the correct statement regarding efficiency criteria.
(A) Pareto efficiency ensures an equitable distribution of resources.
(B) The Kaldor criterion is satisfied if the losers from a change can bribe the winners not to make the change.
(C) A point on the Utility Possibility Frontier represents a Pareto-efficient allocation.
(D) The wealth maximization principle is based on utilitarian ethics.

212. A policy change increases the income of the rich by Rs. 1000 and decreases the income of the poor by Rs. 500. This change would be considered an improvement under which criterion?
(A) The Pareto Criterion.
(B) The Rawlsian Criterion.
(C) None of the above.
(D) The Kaldor-Hicks Criterion.

213. The Pareto criterion is unable to rank two allocations if:
(A) One allocation is better for everyone.
(B) One allocation is worse for everyone.
(C) One allocation makes some people better off and others worse off.
(D) Both allocations are on the contract curve.

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214. The Hicks criterion states that a change is desirable if:
(A) The winners can compensate the losers and still be better off.
(B) The losers cannot profitably bribe the winners to prevent the change.
(C) Both winners and losers agree to the change.
(D) The total wealth of society increases.

215. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : The wealth maximization criterion is controversial because it can justify policies that harm the poor for the benefit of the rich.
Reason (R) : The criterion is concerned with the total size of the economic pie, not how the slices are distributed.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

216. Match the welfare economics concepts in List I with the descriptions in List II and choose the correct option.

List I: (Concept)

P. First Fundamental Theorem of Welfare Economics

Q. Second Fundamental Theorem of Welfare Economics

R. Bergson-Samuelson Social Welfare Function

S. Arrow's Impossibility Theorem

List II: (Description)

1. Shows that it is impossible to formulate a social welfare function that satisfies a set of reasonable axioms.
2. Any Pareto-efficient allocation can be sustained as a competitive equilibrium, given an appropriate redistribution of endowments.
3. Any competitive equilibrium is Pareto-efficient.
4. An ordering of all possible social states, represented by a function $W = f(U_1, U_2, ...)$.

(A) P-3, Q-2, R-4, S-1
(B) P-2, Q-3, R-1, S-4
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-2, R-3, S-4

217. The First Fundamental Theorem of Welfare Economics states that:

(A) Any Pareto efficient outcome can be achieved through a competitive market mechanism with a suitable redistribution of initial endowments.
(B) Social welfare is maximized when incomes are equally distributed.
(C) Any competitive equilibrium leads to a Pareto efficient allocation of resources.
(D) It is impossible to find a voting rule that satisfies certain desirable properties.

218. The Second Fundamental Theorem of Welfare Economics provides a justification for:

(A) The use of lump-sum taxes and transfers to achieve equitable outcomes without sacrificing efficiency.
(B) Laissez-faire policies without any government intervention.
(C) The regulation of monopolies.
(D) The public provision of goods.

219. A social welfare function, as proposed by Bergson and Samuelson, is a function that:

(A) Aggregates individual preferences into a social ordering.
(B) Measures the total output of an economy.
(C) Describes the conditions for Pareto efficiency.
(D) Relates social welfare to the level of individual utilities.

220. Arrow's Impossibility Theorem demonstrates that:

(A) A competitive equilibrium is always Pareto efficient.
(B) It is impossible to aggregate individual preferences into a consistent social preference ordering that satisfies a specific set of reasonable conditions.
(C) Social welfare can be maximized by redistributing income.
(D) Pareto efficiency is the only valid welfare criterion.

221. Which of the following is NOT one of the conditions in Arrow's Impossibility Theorem?

(A) Unrestricted Domain (Universality)
(B) Pareto Principle (Unanimity)
(C) Cardinal Measurability of Utility
(D) Independence of Irrelevant Alternatives (IIA)

222. The Theory of the Second Best suggests that:

(A) If one Pareto condition cannot be met, the next-best solution is to satisfy all other conditions.
(B) The second-best outcome is always superior to the third-best outcome in terms of efficiency.
(C) A competitive equilibrium is always the second-best outcome after a fully planned economy.
(D) If one Pareto condition cannot be met, it is not necessarily desirable to satisfy the others.

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223. Read the following assertion and reason carefully and choose the correct option.

Assertion (A) : The First Fundamental Theorem of Welfare Economics is often called the Invisible Hand theorem.

Reason (R) : It shows that the pursuit of self-

interest by individuals in a competitive market can lead to a socially desirable (Pareto-efficient) outcome.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

224. A Rawlsian social welfare function is based on the principle of:
(A) Maximizing the sum of individual utilities.
(B) Maximizing the utility of the worst-off individual in society.
(C) Ensuring that all individuals have equal utility.
(D) Maximizing the product of individual utilities.

225. What is the main implication of the Second Fundamental Theorem of Welfare Economics for public policy?
(A) The government should not interfere in the economy.
(B) The issues of efficiency and equity can be separated.
(C) Efficiency is more important than equity.
(D) Laissez-faire is the optimal policy.

226. The condition of Independence of Irrelevant Alternatives in Arrow's theorem means that the social ranking of two alternatives, A and B, should:
(A) Depend only on the individual rankings of A and B.
(B) Depend on the ranking of all other alternatives.
(C) Be independent of the number of voters.
(D) Depend on the intensity of preferences for A and B.

227. A social indifference curve shows combinations of:
(A) Two goods that yield the same level of social welfare.
(B) Two factors of production that can produce a given level of output.
(C) Utilities of two individuals that result in the same level of social welfare.
(D) Income levels for two individuals that are considered equally fair.

228. The assumptions required for the First Fundamental Theorem of Welfare Economics to hold include all of the following ExCEPT:
(A) Perfect competition in all markets.
(B) No externalities.
(C) Perfect information.
(D) Equitable initial distribution of endowments.

229. If the social welfare function is $W = U_1 + U_2$, where U_1 and U_2 are the utilities of two individuals, this represents a:
(A) Rawlsian social welfare function.
(B) Nash social welfare function.
(C) Utilitarian (Benthamite) social welfare function.
(D) Egalitarian social welfare function.

230. Consider the following statements about welfare economics:
(i) The First Fundamental Theorem requires the absence of market failures like externalities and public goods.
(ii) The Second Fundamental Theorem implies that any Pareto efficient allocation can be a market outcome.
(iii) Arrow's Theorem proves that democratic voting can perfectly reflect social preferences.
(iv) A Rawlsian social welfare function would prioritize a policy that gives a small benefit to the poorest person over one that gives a large benefit to a rich person.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iv)
(B) (i) and (iii) only
(C) (ii), (iii), and (iv)
(D) (i), (ii), and (iii)

231. The grand utility possibility frontier is the outer envelope of all individual utility possibility frontiers that can be generated by:
(A) Redistributing a fixed stock of goods.
(B) Changing the technology of production.
(C) Altering the number of consumers in the economy.
(D) Varying the product mix along the production possibility frontier.

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232. Point of 'Bliss' in welfare economics is a point where:
(A) The highest possible social indifference curve is tangent to the grand utility possibility frontier.
(B) All individuals have exactly the same income and utility.
(C) The economy is producing on its production possibility frontier.
(D) The conditions of the First Welfare Theorem are met.

233. The failure of the First Welfare Theorem is associated with:
(A) An unequal distribution of income.
(B) The problem of aggregating preferences.
(C) Market failures such as externalities, public goods, and imperfect competition.
(D) The existence of multiple equilibria.

234. An important assumption for the Second Welfare Theorem to work effectively in practice is the ability to use:
(A) Non-distortionary lump-sum taxes and transfers.
(B) Distortionary taxes like income tax.
(C) Price controls and subsidies.
(D) Tariffs and quotas.

235. The concept of a social welfare function is problematic because:
(A) It requires making interpersonal comparisons of utility.
(B) Arrow's theorem suggests it's impossible to derive one that meets certain criteria.
(C) There is no universal agreement on what form the function should take (e.g., Utilitarian, Rawlsian).
(D) All of the above.

236. Asymmetric information occurs in a market transaction when:
(A) Neither party has complete information about the good being traded.
(B) One party to a transaction has more or better information than the other.
(C) Information is costly for all parties to obtain.
(D) The government regulates the flow of information.

237. Consider the following scenarios:
(i) A person with a high-risk health condition buying health insurance.
(ii) A seller of a used car knowing more about its condition than the buyer.
(iii) A worker, once hired, not working as hard as promised.
(iv) Both buyers and sellers of a stock being uncertain about future prices.
(v) A firm not knowing the exact demand curve for its product.
Which of the above scenarios are associated with Asymmetric Information?
(A) (iv) and (v)
(B) (i), (ii), and (iii)
(C) (i), (iv), and (v)
(D) (ii), (iii), and (iv)

238. The market for lemons problem, as described by George Akerlof, is a classic example of:
(A) Moral Hazard.
(B) The Principal-Agent problem.
(C) Signalling.
(D) Adverse Selection.

239. Adverse selection occurs when:
(A) One party's informed choices lead to a market where only low-quality goods are traded.
(B) An agent takes hidden actions that are detrimental to the principal.
(C) A firm uses its market power to select which customers it will serve.
(D) Consumers are unable to select the best product due to a lack of information.

240. Moral hazard arises:
(A) Before a transaction takes place, due to hidden characteristics.
(B) After a transaction takes place, due to hidden actions.
(C) When there are negative externalities in a market.
(D) When a market is dominated by a single seller.

241. Which of the following is the best example of moral hazard?
(A) A person who smokes heavily applying for life insurance.
(B) A person driving more recklessly after obtaining full-coverage car insurance.

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(C) A used car dealership selling a defective car to an unsuspecting buyer.
(D) Only sick people wanting to buy health insurance.

242. In the context of asymmetric information, 'signalling' refers to an action taken by:
(A) The informed party to credibly reveal their private information.
(B) The uninformed party to gather more information.
(C) The government to regulate a market.
(D) A third-party rating agency to provide information.

243. Which of the following is an example of 'signalling' in a labor market?
(A) An employer asking for a candidate's academic records.
(B) An employer offering a high salary to attract better workers.
(C) A job candidate obtaining a master's degree to signal high ability.
(D) An employer using a probationary period for new hires.

244. 'Screening' is an action taken by:
(A) The informed party to reveal information.
(B) A seller to screen out low-quality products.
(C) A consumer to screen advertisements for useful information.
(D) The uninformed party to induce the informed party to reveal their private information.

245. An insurance company offering policies with different levels of deductibles is an example of:
(A) Signalling.
(B) Akerlof's lemons model.
(C) Screening.
(D) The principal-agent problem.

246. The principal-agent problem is a specific type of:
(A) Adverse selection.
(B) Moral hazard.
(C) Public good problem.
(D) Signalling failure.

247. In the principal-agent relationship, who is the 'principal' and who is the 'agent' in the context of a company's shareholders and its CEO?
(A) Principal: CEO; Agent: Shareholders
(B) Both are principals.
(C) Both are agents.
(D) Principal: Shareholders; Agent: CEO

248. Warranties offered by sellers of high-quality products are a market solution to which problem?
(A) Adverse selection, by signalling the high quality of the product.
(B) Moral hazard, by making the seller responsible for post-sale performance.
(C) The free-rider problem.
(D) Inefficient production.

249. Which of the following policies helps to mitigate the problem of adverse selection in the health insurance market?
(A) Charging higher premiums to those who get sick.
(B) Allowing insurance companies to deny coverage for pre-existing conditions.
(C) Mandating that everyone must purchase health insurance.
(D) Removing deductibles and co-payments from all plans.

250. Identify the incorrect statement regarding asymmetric information.
(A) In principal-agent problems, agent actions are perfectly observable by the principal.
(B) Adverse selection is hidden information, while moral hazard is a hidden action problem.
(C) The lemons problem can lead to a complete collapse of a market.
(D) Education can serve as a signal in the job market, even if it does not increase productivity.

Direction : Please read the following source carefully.

The theory of consumer behaviour is a cornerstone of microeconomics, seeking to explain how individuals allocate their income among different goods and services to maximize their utility or satisfaction. Central to this theory is the concept of the preference relation, which is assumed to be complete, reflexive, and transitive, allowing for the construction of indifference curves. An indifference curve represents all combinations of

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two goods that provide a consumer with the same level of utility. The slope of this curve, the Marginal Rate of Substitution (MRS), indicates the rate at which a consumer is willing to trade one good for another while maintaining constant satisfaction. This framework, rooted in ordinal utility, contrasts with the earlier cardinal utility approach, which assumed utility was a measurable quantity. The consumer's choice is constrained by their budget, represented by a budget line, whose slope reflects the market rate of exchange between the goods. The optimal consumption bundle is found at the point of tangency between the highest attainable indifference curve and the budget line, where the consumer's subjective valuation of the goods (MRS) equals the market's objective valuation (the price ratio).

Based on the above source, attempt the following five questions.

251. According to the theory of consumer behaviour, what does the Marginal Rate of Substitution (MRS) represent?
(A) The total utility derived from consuming two goods.
(B) The rate at which a consumer is willing to substitute one good for another while keeping utility constant.
(C) The ratio of the prices of the two goods in the market.
(D) The point where the budget line intersects the indifference curve.

252. The optimal consumption bundle for a consumer is achieved when which of the following conditions is met?
(A) The slope of the indifference curve is equal to the slope of the budget line.
(B) The consumer spends their entire income on only one good.
(C) The Marginal Rate of Substitution is greater than the price ratio.
(D) The budget line lies completely above the chosen indifference curve.

253. The modern theory of consumer choice, as described in the paragraph, is primarily based on which concept of utility?
(A) Cardinal utility, where satisfaction is numerically measurable.
(B) Marginal utility, which is always diminishing.
(C) Ordinal utility, where preferences are ranked.
(D) Total utility, which is maximized at the saturation point.

254. Which of the following is NOT an assumed property of consumer preferences mentioned in the text for constructing indifference curves?
(A) Completeness
(B) Reflexivity
(C) Transitivity
(D) Diminishing marginal utility

255. What does the slope of the consumer's budget line signify?
(A) The consumer's subjective valuation of the two goods.
(B) The level of satisfaction derived from the consumption bundle.
(C) The market-determined rate of exchange between the two goods.
(D) The total income of the consumer divided by the quantity of a good.

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Direction : Please read the following source carefully.

The theory of production and costs explores the relationship between the inputs used in a production process and the resulting output, as well as the economic costs associated with that production. A production function mathematically describes the maximum output that can be produced from any given combination of inputs, such as labor and capital. In the short run, at least one factor of production is fixed, leading to the law of diminishing marginal returns, where adding more of a variable input to a fixed input eventually yields progressively smaller increases in output. In the long run, all factors are variable, and the analysis shifts to returns to scale, which can be increasing, constant, or decreasing. The cost structure of a firm is directly derived from its production function. Short-run cost curves, like average variable cost (AVC) and marginal cost (MC), are typically U-shaped due to diminishing returns. The long-run average cost (LAC) curve is an envelope of the short-run average cost (SRAC) curves, representing the lowest possible cost of producing any given level of output when all inputs are variable. The shape

of the LAC curve is determined by returns to scale.
Based on the above source, attempt the following five questions.

256. The law of diminishing marginal returns is a concept primarily associated with which time horizon in production theory?
(A) The long run, where all inputs are variable.
(B) The short run, where at least one input is fixed.
(C) The market period, where supply is perfectly inelastic.
(D) Any period where returns to scale are decreasing.

257. According to the paragraph, the U-shape of the typical short-run average cost curves is explained by:
(A) The existence of increasing, then constant, then decreasing returns to scale.
(B) The variability of all factors of production.
(C) The firm's objective to maximize profit rather than output.
(D) The operation of the law of diminishing marginal returns.

258. What does the long-run average cost (LAC) curve represent?
(A) The lowest cost of producing any level of output when all inputs can be varied.
(B) The average cost of production when all inputs are fixed.
(C) The sum of all short-run average cost curves.
(D) The upper boundary of all short-run marginal cost curves.

259. The shape of the long-run average cost (LAC) curve is fundamentally determined by:
(A) The level of fixed costs in the production process.
(B) The market price of the output.
(C) Returns to scale.
(D) The slope of the production function in the short run.

260. A production function serves to describe:
(A) The maximum output achievable from a combination of inputs.
(B) The relationship between the firm's costs and its revenue.
(C) The minimum output achievable from a set of inputs.
(D) The profit-maximizing level of output for a firm.

Direction : Please read the following source carefully.

Market structures in microeconomics are categorized based on the nature and degree of competition among firms operating in the same industry. These structures range from perfect competition to pure monopoly, with monopolistic competition and oligopoly as intermediate forms. In a perfectly competitive market, there are numerous firms, homogenous products, perfect information, and free entry and exit, leading to firms being price takers. This structure is considered efficient as, in the long run, price equals marginal cost and the minimum of average cost. At the other extreme, a monopoly consists of a single seller with significant barriers to entry, allowing the firm to be a price maker and potentially earn supernormal profits in the long run, but this typically results in a deadweight loss and allocative inefficiency. Monopolistic competition involves many firms selling differentiated products, leading to some market power but zero economic profit in the long run due to free entry. Oligopoly, characterized by a few interdependent firms, can lead to complex strategic interactions. The efficiency properties of these non-competitive equilibria are generally considered inferior to that of perfect competition, as price typically exceeds marginal cost.
Based on the above source, attempt the following five questions.

261. Which market structure is characterized by a large number of firms, a homogenous product, and firms acting as price takers?
(A) Monopoly
(B) Oligopoly
(C) Monopolistic Competition
(D) Perfect Competition

262. In the context of market structures, a key distinction of monopolistic competition is:
(A) A single firm dominating the market.
(B) Firms selling differentiated products.
(C) The product being perfectly homogenous.
(D) The presence of significant barriers to entry.

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263. According to the paragraph, why is a monopoly's equilibrium generally considered to have poor efficiency properties?
(A) The price is set equal to the minimum of average cost.
(B) Firms are unable to earn supernormal profits in the long run.
(C) The price typically exceeds the marginal cost, leading to allocative inefficiency.
(D) There is free entry and exit, which destabilizes the market.

264. What is a long-run outcome for a firm in a monopolistically competitive market, as described in the text?
(A) Sustained supernormal profits due to product differentiation.
(B) A guaranteed economic loss due to excessive competition.
(C) The formation of a cartel with other firms to fix prices.
(D) Zero economic profit due to the free entry of new firms.

265. The text suggests that the efficiency of non-competitive market structures is generally inferior to perfect competition primarily because:
(A) Price is higher than marginal cost.
(B) They have more firms than is optimal.
(C) They face perfectly elastic demand curves.
(D) Price is set below marginal cost.

Direction : Please read the following source carefully.

General Equilibrium Analysis represents a significant departure from partial equilibrium analysis by examining the economy as a whole, rather than focusing on a single market in isolation. While partial equilibrium assumes that activity in one market has negligible effects on others, general equilibrium analysis explicitly considers the interdependence and feedback effects among all markets for goods, services, and factors of production. The objective is to determine a set of prices at which the quantity supplied equals the quantity demanded in every market simultaneously. This comprehensive approach, pioneered by Léon Walras, seeks to prove the existence, uniqueness, and stability of such a general equilibrium state. It demonstrates how the decisions of all consumers and firms are interconnected through the price system. A fundamental concept within this framework is Walras's Law, which states that if (n-1) markets in an n-market economy are in equilibrium, then the nth market must also be in equilibrium. This framework is essential for analyzing economy-wide shocks and policies, providing a more complete picture of economic adjustments than its partial equilibrium counterpart.

Based on the above source, attempt the following five questions.

266. What is the primary distinction between General Equilibrium Analysis and Partial Equilibrium Analysis?
(A) General equilibrium focuses on a single market, while partial equilibrium examines the entire economy.
(B) General equilibrium considers the interdependence of all markets, while partial equilibrium analyzes one market in isolation.
(C) General equilibrium is used for short-run analysis, while partial equilibrium is used for the long run.
(D) General equilibrium assumes prices are fixed, while partial equilibrium allows them to vary.

267. The main objective of General Equilibrium Analysis is to find a set of prices that achieves which of the following outcomes?
(A) Maximum profit for every firm in the economy.
(B) Simultaneous equilibrium in all markets of the economy.
(C) Equilibrium in a single, representative market.
(D) The highest possible utility for a single consumer.

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268. Walras's Law implies that in an economy with 'n' markets:
(A) If all markets except one are in equilibrium, the last one must also be in equilibrium.
(B) All 'n' markets must be analyzed independently to ensure equilibrium.
(C) An economy can never achieve equilibrium in all markets simultaneously.
(D) Equilibrium in the goods market ensures

equilibrium in the factor market.

269. The text suggests that General Equilibrium Analysis is particularly useful for:
(A) Analyzing the behavior of a single consumer.
(B) Setting the price for a single product.
(C) Understanding the impact of economy-wide policies.
(D) Examining the short-run costs of a single firm.

270. Which economist is most closely associated with the pioneering development of General Equilibrium Analysis?
(A) Adam Smith
(B) John Maynard Keynes
(C) Alfred Marshall
(D) Léon Walras

Direction : Please read the following source carefully.

In welfare economics, evaluating the desirability of different economic states or policy changes requires specific efficiency criteria. The most fundamental is Pareto-Optimality, which defines a state as efficient if it is impossible to make any individual better off without making at least one other individual worse off. A change is a Pareto improvement if it benefits at least one person without harming anyone. While intellectually rigorous, the Pareto criterion is restrictive, as many policies create both winners and losers. To address this, the Kaldor-Hicks criterion was developed. A change is considered a Kaldor-Hicks improvement if the gains to the winners are large enough that they could, in principle, compensate the losers and still be better off. This is a test of potential compensation, not actual compensation, and thus underlies many cost-benefit analyses. A related but distinct concept is Wealth Maximization, often associated with the law and economics school, which suggests that the policy to be preferred is the one that maximizes the total monetary value of society's resources, regardless of its distributional impact. Each criterion provides a different lens for judging economic efficiency, moving from a strict unanimity requirement to a broader aggregate assessment.

Based on the above source, attempt the following five questions.

271. A situation is defined as Pareto-Optimal if:
(A) Every individual in society has an equal amount of wealth.
(B) It is possible to make everyone better off simultaneously.
(C) No individual can be made better off without making someone else worse off.
(D) The gains to winners are greater than the losses to losers.

272. The Kaldor-Hicks criterion differs from the Pareto criterion primarily because it:
(A) Requires that no one is made worse off by a policy change.
(B) Allows for a policy change even if there are losers, provided they can be potentially compensated.
(C) Focuses exclusively on maximizing the wealth of the richest individuals.
(D) Is only applicable in situations of perfect information and zero transaction costs.

273. A policy change that benefits some people while harming others, but where the gainers' monetary benefits exceed the losers' monetary losses, would be considered an improvement under which criterion?
(A) Only the Pareto criterion
(B) Both the Pareto and Kaldor-Hicks criteria
(C) Neither the Pareto nor the Kaldor-Hicks criterion
(D) Only the Kaldor-Hicks criterion

274. The concept of Wealth Maximization as an efficiency criterion suggests that policies should be chosen based on:
(A) Their impact on maximizing the total monetary value of societal wealth.
(B) Their ability to ensure an equitable distribution of resources.
(C) The requirement that no individual is harmed by the policy.
(D) The potential for losers to be fully compensated by the winners.

275. Why is the Pareto criterion often considered restrictive for real-world policy analysis?
(A) It is too complex to calculate mathematically.
(B) It ignores the concept of efficiency entirely.
(C) It cannot evaluate policies that create any losers, even if the overall gains are large.

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(D) It only applies to non-competitive market structures.

Direction : Please read the following source carefully.

Welfare economics is concerned with the normative evaluation of economic outcomes and policies. Two of its most significant results are the Fundamental Theorems of Welfare Economics, which establish a formal link between competitive markets and Pareto efficiency. The First Fundamental Theorem states that, under certain assumptions (such as the absence of externalities), any competitive equilibrium is Pareto-optimal. This provides a powerful, albeit abstract, justification for the efficiency of market mechanisms, often referred to as the invisible hand theorem. The Second Fundamental Theorem addresses equity concerns by stating that any desired Pareto-optimal allocation can be achieved as a competitive market equilibrium, provided society is willing and able to make an appropriate initial redistribution of endowments (lump-sum transfers). This theorem separates the issues of efficiency and distribution. While the market can efficiently achieve any point on the Pareto frontier, society must choose which point is most desirable. This choice is formalized through a Social Welfare Function, such as the Bergson-Samuelson function, which represents society's collective preferences over different distributions of utility among its members, allowing for the ranking of various Pareto-optimal states.

Based on the above source, attempt the following five questions.

276. What does the First Fundamental Theorem of Welfare Economics state?

(A) Any competitive market equilibrium leads to a Pareto-optimal outcome.

(B) All Pareto-optimal outcomes are achievable through market competition.

(C) Markets are always equitable in their distribution of resources.

(D) Social welfare is maximized only under a monopoly.

277. The Second Fundamental Theorem of Welfare Economics suggests that the goals of efficiency and equity can be separated. It proposes that a desired distributional outcome can be achieved by:

(A) Abandoning competitive markets in favor of central planning.

(B) Setting prices below the marginal cost of production.

(C) Focusing solely on maximizing the total output of the economy.

(D) Implementing an appropriate initial redistribution of endowments.

278. The concept of a Social Welfare Function is used in welfare economics to:

(A) Prove that all competitive equilibria are Pareto efficient.

(B) Rank different Pareto-optimal outcomes based on societal preferences for distribution.

(C) Calculate the total profit of all firms in an economy.

(D) Determine the conditions for market failure.

279. The First Fundamental Theorem is often associated with the invisible hand concept because it suggests that:

(A) Government intervention is always necessary to achieve efficiency.

(B) Equity is a more important goal than efficiency.

(C) Individual self-interested behavior in competitive markets can lead to a socially efficient outcome.

(D) Markets with few firms are the most efficient.

280. According to the two Fundamental Theorems, what is the primary role of the market mechanism versus the role of societal choice?

(A) The market determines both efficiency and the final distribution; societal choice is irrelevant.

(B) Society chooses the level of efficiency, and the market determines the distribution.

(C) The market is inherently inefficient, and society must correct it through constant intervention.

(D) The market can achieve efficiency, but society must choose the desired distributional outcome.

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carefully.

The efficient functioning of markets often relies on the assumption that all participants have access to the same information. When this assumption is violated, a situation of Asymmetric Information arises, leading to potential market failures. There are two primary types of problems stemming from asymmetric information: Adverse Selection and Moral Hazard. Adverse Selection occurs before a transaction is completed, arising from hidden characteristics. It describes a situation where one party has more information about the quality of a product or their own attributes than the other party. The classic example is the market for used cars, where sellers know the true quality of their car (a lemon or a peach), but buyers do not, leading to a potential collapse of the market for high-quality cars. Moral Hazard, in contrast, occurs after a transaction, arising from hidden actions. It describes a situation where one party, insulated from risk, behaves differently than they would if they were fully exposed to the risk. For instance, an individual with comprehensive car insurance might drive more recklessly than someone without it, as the insurer bears a significant portion of the cost of an accident.

Based on the above source, attempt the following five questions.

281. What is the fundamental cause of the economic problems of Adverse Selection and Moral Hazard?
(A) Asymmetric information between transacting parties
(B) Excessive government regulation
(C) The absence of competitive markets
(D) Irrational behavior by consumers

282. According to the text, Adverse Selection is a problem that arises due to:
(A) Hidden actions after a contract is signed.
(B) Hidden characteristics before a transaction occurs.
(C) The strategic behavior of firms in an oligopoly.
(D) The presence of externalities in production.

283. A situation where individuals who purchase health insurance are more likely to be sick than the general population is a classic example of:
(A) Moral Hazard
(B) Adverse Selection
(C) Pareto efficiency
(D) A competitive equilibrium

284. Moral Hazard is described as a problem of hidden action because it occurs when:
(A) An individual's behavior changes after a transaction because they are insulated from risk.
(B) A seller hides the poor quality of a product before a sale.
(C) Buyers and sellers cannot agree on a price for a good.
(D) A market fails to attract a sufficient number of high-quality sellers.

285. A bank hires a new manager to oversee a large investment fund. The bank cannot perfectly monitor the manager's effort level. The risk that the manager might not work as hard as promised because their effort is not observable is an instance of:
(A) Adverse Selection
(B) Walras's Law
(C) Moral Hazard
(D) The Second Fundamental Theorem of Welfare

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Direction : Please read the following source carefully.

Economic agents frequently face situations where the outcomes of their choices are not known with certainty. The theory of decision making under uncertainty provides a framework for analyzing these choices. A central element of this theory is the concept of expected utility, which posits that individuals do not simply maximize the expected monetary value of a choice but rather the expected utility from that choice. This distinction allows for the incorporation of an individual's attitude towards risk. An individual's attitude towards risk can be inferred from the relationship between their utility and their wealth. A person is considered risk-averse if they exhibit a diminishing marginal utility of wealth; their utility function is concave. Such a person would prefer a certain outcome over a gamble with the same expected monetary value. Conversely, a risk-loving individual has an increasing marginal utility of wealth (a convex utility function) and would prefer the gamble. A risk-neutral person is indifferent between the

certain outcome and the gamble, displaying a constant marginal utility of wealth (a linear utility function). Thus, the shape of the utility function is key to understanding and predicting choices made under uncertain conditions.

Based on the above source, attempt the following five questions.

286. The expected utility theory suggests that when making choices under uncertainty, individuals maximize:
(A) The highest possible monetary payoff.
(B) The expected monetary value of the outcome.
(C) The probability of a successful outcome.
(D) The expected utility derived from the outcome.

287. A person who prefers receiving a certain amount of ₹100 over a gamble that has a 50% chance of winning ₹200 and a 50% chance of winning ₹0 is demonstrating:
(A) Risk-loving behavior
(B) Risk-neutral behavior
(C) Risk-averse behavior
(D) Irrational behavior

288. According to the paragraph, what is the relationship between the utility function and risk aversion?
(A) A risk-averse individual has a convex utility function of wealth.
(B) A risk-averse individual has a concave utility function of wealth.
(C) A risk-averse individual has a linear utility function of wealth.
(D) A risk-averse individual's utility is independent of their wealth.

289. A risk-loving individual is characterized by:
(A) A diminishing marginal utility of wealth.
(B) A constant marginal utility of wealth.
(C) An unwillingness to take any gambles.
(D) An increasing marginal utility of wealth.

290. An individual is offered a choice between a certain payment of ₹500 and a lottery ticket with an expected monetary value of ₹500. If the individual is indifferent between the two options, they are considered:
(A) Risk-neutral
(B) Risk-averse
(C) Risk-loving
(D) Risk-unaware

Direction : Please read the following source carefully.

Game Theory is the formal study of strategic interaction among rational decision-makers. In the context of microeconomics, it provides essential tools for analyzing situations where the outcome of one agent's choice depends on the choices made by others, a common feature in oligopolistic markets. Non-cooperative game theory, in particular, focuses on scenarios where players make decisions independently, without the ability to form binding agreements. The basic components of a game include players, the strategies available to each player, and the payoffs each player receives for every possible combination of strategies. A key objective in analyzing such games is to find a solution concept that predicts the outcome. The most fundamental solution concept is the Nash Equilibrium, named after John Nash. A set of strategies constitutes a Nash Equilibrium if, given the strategies of all other players, no single player has an incentive to unilaterally change their own strategy. In a Nash Equilibrium, each player's chosen strategy is the best response to the strategies chosen by the other players. It represents a stable state of mutual best responses from which no individual player wishes to deviate on their own.

Based on the above source, attempt the following five questions.

291. Game theory is primarily concerned with the analysis of:
(A) Individual decision-making in isolation.
(B) The operation of perfectly competitive markets.
(C) Strategic interaction among rational agents.
(D) Consumer behavior under certainty.

292. What is a defining characteristic of the non-cooperative games described in the text?
(A) Players make decisions independently and cannot form binding agreements.
(B) Players can form binding agreements to coordinate their strategies.
(C) The number of players is always limited to two.

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(D) All players receive the same payoff regardless of the outcome.

293. Which of the following is NOT listed as a basic component of a game?
(A) Players
(B) Strategies
(C) Payoffs
(D) Market regulations

294. A Nash Equilibrium is a state where:
(A) Every player achieves their maximum possible payoff.
(B) No player has an incentive to unilaterally deviate from their chosen strategy.
(C) All players have a dominant strategy.
(D) The sum of all players' payoffs is maximized.

295. In a Nash Equilibrium, each player's strategy is best described as:
(A) A random choice made without considering others.
(B) The strategy that harms the other players the most.
(C) A best response to the strategies of the other players.
(D) A strategy dictated by a central authority.

Direction : Please read the following source carefully.

The theory of factor pricing is concerned with the determination of the prices paid for the services of factors of production: labor, capital, and land. These prices are commonly known as wages, interest, and rent, respectively, and they constitute the primary sources of income for households. In a competitive market framework, the dominant explanation for factor pricing is the marginal productivity theory of distribution. This theory posits that the demand for a factor of production is a derived demand, meaning it is not wanted for its own sake but for its contribution to producing goods and services. A profit-maximizing firm will hire a factor of production up to the point where the cost of hiring an additional unit of the factor (e.g., the wage rate for labor) is equal to the value of the output that the additional unit produces. This value is known as the Marginal Revenue Product (MRP), which is the Marginal Physical Product (MPP) of the factor multiplied by the marginal revenue (MR) from selling the output. In a perfectly competitive output market, MR equals the product price, so MRP equals VMP (Value of Marginal Product). Thus, the factor's price tends to equal its marginal revenue product.

Based on the above source, attempt the following five questions.

296. The theory of factor pricing aims to explain the determination of:
(A) The prices of final goods and services.
(B) The overall level of inflation in the economy.
(C) The rate of economic growth.
(D) The prices of factors of production like labor and capital.

297. According to the marginal productivity theory, the demand for a factor of production is described as a derived demand because it:
(A) Is derived from the demand for the goods it helps to produce.
(B) Is determined by government policy.
(C) Is constant regardless of the factor's price.
(D) Is derived from the historical price of the factor.

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298. A profit-maximizing firm in a competitive market will hire an additional unit of a factor of production as long as:
(A) The total output of the firm is increasing.
(B) The factor's price is less than or equal to its Marginal Revenue Product.
(C) The firm is making a positive economic profit.
(D) The factor's price is greater than its average product.

299. What is the definition of Marginal Revenue Product (MRP) provided in the text?
(A) The total revenue divided by the number of units of the factor hired.
(B) The marginal physical product of the factor multiplied by the marginal revenue.
(C) The price of the output produced by the factor.
(D) The change in total cost from hiring one more unit of a factor.

300. In a perfectly competitive market for both the factor and the output, the price of a factor will tend to equal its:
(A) Value of Marginal Product (VMP).

(B) Total product.
(C) Average physical product.
(D) Marginal rate of technical substitution.

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ANSWERS

1. (B) The want-satisfying power of a commodity or service.
   Utility represents the capacity of a good or service to satisfy human wants. It is a subjective concept varying between individuals and situations. In consumer behavior theory, it serves as the foundational measure of satisfaction derived from consumption. Understanding utility helps in analyzing how consumers allocate limited income among various options to achieve maximum satisfaction based on their personal preferences and needs.

2. (A) It is convex to the origin due to a diminishing marginal rate of substitution.
   A standard indifference curve exhibits convexity because of the law of diminishing marginal rate of substitution. As a consumer acquires more units of one good, they are willing to give up increasingly smaller amounts of another good to maintain the same level of total satisfaction. This property reflects the typical consumer preference for a diverse bundle of goods rather than specializing in a single commodity.

3. (A) Both Statement I and Statement II are true.
   The cardinal utility approach operates on the assumption that satisfaction can be measured in absolute units called utils. Conversely, the ordinal approach suggests that while satisfaction cannot be quantified precisely, consumers can rank different combinations based on preference. Both frameworks are fundamental to understanding consumer choice, with the cardinal approach focusing on measurable intensity and the ordinal approach emphasizing the relative ordering of consumption bundles.

4. (D) The consumer's money income increases.
   A parallel shift of the budget line to the right occurs when there is a change in the consumer's nominal income while the prices of goods remain constant. This shift signifies an expansion of the consumer's purchasing power, allowing them to afford larger quantities of both commodities. Since the price ratio remains unchanged, the slope of the line stays the same, resulting in a parallel movement.

5. (A) P-2, Q-4, R-3, S-1
   Consumer theory involves several interrelated tools. Indifference curves depict combinations yielding equal satisfaction, while the budget line shows affordable bundles. Equilibrium occurs at the tangency point where the consumer maximizes utility within their budget. The price consumption curve traces the path of these equilibrium points as the price of one good changes. Together, these concepts provide a comprehensive framework for analyzing how individual choices respond to economic constraints.

6. (B) A diminishing marginal rate of substitution.
   The convex shape of an indifference curve is fundamentally linked to the diminishing marginal rate of substitution. This economic principle states that as a consumer increases consumption of one good, the amount of the second good they are willing to trade for an additional unit of the first decreases. This reflects the psychological tendency of consumers to value a balanced mix of goods over extreme concentrations of any one.

7. (D) The consumer's income is variable.
   The law of diminishing marginal utility relies on specific assumptions to remain valid, including consumer rationality and the cardinal measurability of utility. Crucially, it assumes the marginal utility of money remains constant and that the consumer's income does not change during the analysis. If income were variable, it could alter the consumer's overall satisfaction levels and purchasing patterns, making it difficult to isolate the utility derived from specific units.

8. (A) The commodity is now relatively cheaper than its substitutes.
   The substitution effect describes the change in consumption patterns due to a change in the relative prices of goods. When the price of

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a specific commodity falls, it becomes more attractive compared to other goods whose prices have remained the same. Consumers naturally tend to replace more expensive items with this now cheaper alternative to achieve a desired level of utility at a lower cost, keeping real income constant.

9. (C) It requires the assumption of cardinally measurable utility.
Revealed Preference Theory, developed by Paul Samuelson, provides a way to analyze consumer demand by observing actual market behavior rather than relying on abstract utility functions. Unlike the earlier cardinal approach, it does not require utility to be measurable in units. Instead, it assumes that if a consumer chooses one bundle over another affordable one, they reveal a consistent preference, allowing demand curves to be derived through observation.

10. (A) Both A and R are true and R is the correct explanation of A.
Giffen goods are a unique category of inferior goods where the demand increases as the price rises, resulting in an upward-sloping demand curve. This paradox occurs because the negative income effect of a price increase is so powerful that it overwhelms the positive substitution effect. Consequently, consumers spend a larger portion of their limited budget on the essential but now more expensive good, sacrificing other types of consumption.

11. (D) Upward sloping.
An Engel curve represents the relationship between the quantity of a good demanded and the consumer's income level. For normal goods, as income increases, the demand for the good also increases, resulting in an upward-sloping curve. This positive correlation indicates that the good is a regular part of the consumer's basket and that higher purchasing power leads to greater consumption of that item, reflecting standard consumer behavior.

12. (B) Corner solution.
A corner solution occurs when a consumer maximizes their utility by spending their entire budget on only one of the two goods available. In graphical terms, the highest attainable indifference curve touches the budget line at one of the axes rather than at an interior point. This situation typically arises when the marginal rate of substitution is consistently higher or lower than the price ratio, leading to specialized consumption.

13. (C) The amount of Y a consumer sacrifices for X to maintain utility.
The marginal rate of substitution quantifies the trade-off a consumer is willing to make between two goods while remaining on the same indifference curve. It measures the quantity of one good that must be given up to obtain an additional unit of another good without changing the total level of satisfaction. This rate typically diminishes as more of a good is consumed, reflecting the consumer's preference for variety in their consumption.

14. (D) It will increase due to both the substitution and income effects.
When the price of a normal good decreases, two effects work together to increase the quantity demanded. The substitution effect encourages the consumer to buy more of the now relatively cheaper good. Simultaneously, the income effect increases the consumer's real purchasing power, and since the good is normal, they use some of this extra power to buy even more of it. Both mechanisms reinforce the increase in quantity demanded.

15. (A) (i), (ii), and (iv)
Consumer surplus is a key concept in welfare economics, representing the benefit consumers receive when they pay less than their maximum willingness to pay. This idea was refined by Alfred Marshall and is graphically shown as the area below the demand curve and above the market price. Generally, a decrease in the market price expands this area, thereby increasing the total surplus enjoyed by consumers in the marketplace.

16. (B) The Weak Axiom of Revealed Preference (WARP).
The Weak Axiom of Revealed Preference is a fundamental consistency requirement in consumer theory. It states that if a consumer chooses bundle A when B is also affordable, they have revealed a preference for A. Therefore, if they are later observed choosing bundle B, it

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must be because bundle A was not affordable in that situation. This axiom ensures that consumer choices remain logically consistent and predictable.

17. (A) Both Statement I and Statement II are true.
Hicks and Slutsky provided different methods to isolate the substitution effect from a price change. Hicksian analysis keeps the consumer on the original indifference curve by adjusting income, thus maintaining a constant level of utility. In contrast, the Slutsky approach adjusts income so the consumer can still afford the original bundle of goods, maintaining constant purchasing power. Both methods help economists understand how relative price changes influence individual decisions.

18. (A) Inferior Good - A good for which demand decreases as income increases.
Inferior goods are characterized by a negative income elasticity of demand. As consumers' income levels rise, they tend to switch from these lower-quality or less desirable goods to more expensive or higher-quality substitutes. This relationship is a critical component of consumer theory, distinguishing how different types of goods respond to changes in economic status. Common examples often include basic staple foods or low-cost transportation services.

19. (C) Good X is an inferior good.
The income consumption curve traces the utility-maximizing combinations of two goods as income changes. If the curve bends backward toward the Y-axis, it indicates that as income increases, the consumer actually purchases less of the good on the X-axis. This behavior identifies the good on the horizontal axis as an inferior good, as its consumption falls despite the consumer's overall increase in purchasing power and higher total budget.

20. (B) (ii) and (iii) only
In consumer theory, the budget line's slope is determined by the ratio of the prices of the two goods, representing the market's trade-off rate. Equilibrium is reached at the point where this price ratio equals the consumer's marginal rate of substitution, signifying that the internal valuation of goods matches the external market prices. While points on an indifference curve provide equal utility, points on a budget line simply represent affordable combinations.

21. (C) The technological relationship between physical inputs and output.
A production function is a technical concept that describes the maximum amount of output that can be produced from a given set of inputs, such as labor and capital, using current technology. It represents the efficiency and constraints of the production process without considering prices or revenues. Economists use this function to analyze how changes in input quantities impact the total physical volume of goods or services a firm generates.

22. (B) The effect on output when one input is varied while others remain constant.
The law of variable proportions examines the short-run production process where at least one factor, typically capital, is fixed. It describes how the total, average, and marginal products change as increasing units of a variable factor, like labor, are added to the fixed factor. This law is fundamental for understanding diminishing returns and determining the most efficient level of resource utilization for a firm within a restricted time frame.

23. (D) Stage II, where the marginal product is positive but falling.
Stage II is considered the economic or rational stage of production because both the marginal and average products are declining but remain positive. In Stage I, the firm underutilizes its fixed factors, so it can increase efficiency by adding more variable inputs. In Stage III, the marginal product becomes negative, meaning total output decreases. Therefore, a rational producer always operates within Stage II to maximize efficiency and avoid wasteful input use.

24. (A) Inputs that must be used in a fixed proportion.
An L-shaped or right-angled isoquant represents a production process where inputs are perfect complements and must be used in specific, rigid ratios. Adding more of only one input without a corresponding increase in the other does not result in any additional output. This type of production function is often associated with Leontief technology, where the elasticity

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of substitution between inputs is zero, requiring precise combinations for production.

25. (B) 2, 3, 1

The history of utility theory began with the cardinal approach, which assumed utility could be measured in units. This was followed by the development of ordinal utility analysis, using indifference curves to rank preferences without numerical measurement. Finally, the revealed preference theory was introduced, shifting the focus to observing actual consumer choices in the market. This progression reflects an evolution from psychological assumptions toward more empirical and observable methods of analysis.

26. (A) The rate at which a firm substitutes labor for capital, holding output constant.

The marginal rate of technical substitution measures the amount of one input a firm can reduce when one extra unit of another input is added, while keeping the total output level unchanged. It is represented by the absolute slope of the isoquant curve. This concept is crucial for firms to determine the most cost-effective combination of resources, as it reflects the technical trade-offs inherent in the production technology they employ.

27. (D) The average total cost is always greater than the average variable cost.

Average total cost is the sum of average variable cost and average fixed cost. Since fixed costs are positive in the short run, the average total cost curve will always lie above the average variable cost curve. Other standard properties include the marginal cost curve intersecting the average curves at their minimum points and the average fixed cost curve taking the shape of a rectangular hyperbola as it spreads over larger output volumes.

28. (B) Points of tangency between isoquants and isocost lines.

The expansion path is a curve that connects the cost-minimizing combinations of inputs for every possible level of output. These combinations are found at the points of tangency between the firm's isoquants and isocost lines, where the marginal rate of technical substitution equals the input price ratio. This path shows how a firm ideally scales its operations as it expands production, assuming that the relative prices of inputs remain constant.

29. (C) Horizontal.

Constant returns to scale occur when an increase in all inputs leads to a proportional increase in output. In such a scenario, the long-run average cost remains constant regardless of the scale of production. Graphically, this results in a horizontal long-run average cost curve. This implies that the firm does not experience economies or diseconomies of scale, and the cost per unit of production stays the same as the firm expands its capacity.

30. (A) P-4, Q-3, R-1, S-2

The law of variable proportions describes three distinct stages. In Stage I, the average product increases and the marginal product stays above it. Stage II begins where the average product starts falling, though the marginal product remains positive. Stage III is reached when the marginal product becomes negative, causing total output to decline. The point of inflexion marks where the marginal product is at its maximum and total product changes its curvature.

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31. (A) Total fixed cost.

Total fixed costs are expenses that do not vary with the level of output in the short run. These include costs such as rent, insurance, and interest on loans, which must be paid even if production is zero. In contrast, variable costs like raw materials and labor change as the volume of production increases or decreases. Marginal and average variable costs also fluctuate based on efficiency and the level of output produced.

32. (B) Long-run average cost curve.

The long-run average cost curve is often called the envelope curve because it is formed by the tangency points of numerous short-run average cost curves. Each short-run curve represents a different plant size or scale of production. The long-run curve envelopes these curves from below, showing the minimum average cost of producing any level of output when the firm has the flexibility to choose the most efficient plant size for that output.

33. (C) Statement I is true, but Statement II is false.

Isoquants are typically convex to the origin due to the diminishing marginal rate of technical substitution, showing combinations of inputs that yield the same output. However, an isocost line does not represent output; instead, it shows all combinations of inputs that a firm can purchase with a specific total budget, given constant input prices. The tangency between these two tools identifies the most efficient input combination for a desired level of production.

34. (A) $\alpha + \beta > 1$

In a Cobb-Douglas production function, the sum of the exponents of the inputs determines the returns to scale. If the sum is greater than one, the function exhibits increasing returns to scale, meaning output increases by a larger percentage than the increase in inputs. If the sum equals one, there are constant returns to scale, and if it is less than one, the firm experiences decreasing returns to scale in its production process.

35. (A) Both A and R are true and R is the correct explanation of A.

The mathematical relationship between marginal and average values dictates that the marginal cost curve must intersect the average cost curve at its lowest point. When marginal cost is below the average cost, it pulls the average down. Conversely, when marginal cost rises above the average cost, it pulls the average up. Therefore, the average cost is neither rising nor falling only at the point where it equals the marginal cost.

36. (D) The economically feasible from uneconomic production regions.

Ridge lines on an isoquant map define the boundaries within which the marginal products of inputs are positive. Inside these lines, the isoquants are downward-sloping, representing the economically feasible region of production where inputs can be substituted for one another. Outside the ridge lines, the marginal product of at least one input is zero or negative, making production in those regions irrational and technically inefficient for any firm attempting to maximize output.

37. (C) In short-run, one factor is fixed; in long-run, all factors are variable.

The distinction between the short-run and long-run is based on the flexibility of inputs rather than a specific calendar time. In the short-run, at least one factor of production, such as the physical factory size or heavy machinery, remains fixed. In the long-run, all factors of production are variable, allowing the firm to adjust its entire scale of operations, including entering or exiting the industry to respond to changing market conditions.

38. (B) All of the above.

A producer reaches equilibrium by minimizing the cost of producing a specific level of output. This occurs when the slope of the isoquant matches the slope of the isocost line. Mathematically, this condition requires the marginal rate of technical substitution to equal the ratio of input prices. Furthermore, the marginal product per unit of currency spent must be equal across all inputs, ensuring the most efficient and rational allocation of the firm's financial resources.

39. (D) Learning Curve - Decline in average cost with rising cumulative output.

The learning curve represents the phenomenon where the average cost of production decreases as the cumulative volume of output increases over time. This happens because workers and managers become more proficient, processes are refined, and organizational efficiency improves through experience. It is distinct from economies of scale, which focus on the rate of output per period; instead, the learning curve emphasizes the gains achieved through repetitive production and historical organizational experience.

40. (B) (iii) and (iv)

Constant returns to scale mean that increasing all inputs leads to a proportional increase in output, which implies a horizontal and constant long-run average cost. Additionally, in the third stage of the law of variable proportions, adding more of a variable input actually reduces total output, meaning its marginal product is negative. The law of variable proportions is a short-run concept, and short-run costs are influenced by both fixed and variable components during production.

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41. (C) Salary the owner could have earned by working for someone else.

Implicit costs are the opportunity costs of using resources already owned by the firm or the entrepreneur, for which no direct cash payment is made. In this case, the salary the owner foregoes by working in their own business instead of for an employer is a classic example. While explicit costs like wages and rent involve actual money transfers, implicit costs represent the value of the next-best alternatives sacrificed to operate the business.

42. (A) 30

Marginal cost is the first derivative of the total cost function with respect to quantity. For the function provided, the marginal cost formula is derived as ten plus four times quantity. By substituting the given quantity of five into this derivative, we obtain ten plus twenty, which equals thirty. This value represents the additional cost incurred by the firm to produce the fifth unit of output in its short-run production process.

43. (D) Two isoquants can intersect.

Isoquants share several properties with indifference curves. They are downward-sloping, convex to the origin due to the diminishing marginal rate of technical substitution, and higher curves represent higher levels of output. Crucially, two isoquants cannot intersect because each curve represents a unique and specific level of total output. An intersection would imply that the same combination of inputs could produce two different maximum levels of output, which is logically and technically impossible in production theory.

44. (B) A shift in the isoquant map inward.

Neutral technological progress occurs when an improvement in technology allows a firm to produce the same level of output using fewer units of all inputs, while maintaining the same ratio of marginal products. Graphically, this is represented by an inward shift of the isoquant map toward the origin. The shape of the isoquants remains unchanged, but each curve now signifies the same production level achieved with a reduced requirement for all necessary labor and capital.

45. (A) (iii) only

Opportunity cost is a fundamental economic principle defined as the value of the next-best alternative that must be sacrificed when a choice is made. Accounting profit only considers explicit costs, while economic profit subtracts both explicit and implicit costs. Sunk costs are past expenditures that cannot be recovered and should be ignored in future decisions. Marginal cost reflects the change in total cost, not just fixed cost, from producing one additional unit of output.

46. (D) Economies of scale exist up to a point, after which costs stay constant.

An L-shaped long-run average cost curve indicates that a firm benefits from economies of scale as it initially increases its production capacity. However, once the firm reaches a certain minimum efficient scale, these economies are exhausted, and the average cost remains constant over a wide range of further output. This suggests that the firm does not encounter significant diseconomies of scale as it continues to grow beyond the initial efficient point of operation in its industry.

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47. (A) The output elasticity of labor.

In the Cobb-Douglas production function, the exponent attached to the labor input represents the output elasticity of labor. This parameter measures the percentage change in total output resulting from a one percent change in the quantity of labor used, assuming the amount of capital remains constant. It indicates how sensitive the production process is to changes in labor and reflects labor's relative importance and contribution to the firm's total physical volume of output.

48. (B) Least possible cost.

Producer's equilibrium is the state where a firm organizes its inputs to produce a desired level of output with the minimum possible total expenditure. This efficiency is achieved when the ratio of the marginal products of the inputs equals the ratio of their respective prices. At this point, the firm cannot rearrange its resources to reduce costs further without decreasing its output, signifying the most efficient and rational use of available and limited production factors.

49. (B) Perfect substitutes.

A downward-sloping straight-line isoquant indicates that the marginal rate of technical substitution between two inputs is constant. This means the inputs are perfect substitutes, and the firm can replace one with the other at a fixed rate without affecting total output. Unlike the standard convex isoquant, which suggests that inputs are difficult to substitute at extreme levels, a linear isoquant implies that the production process can rely entirely on either input to achieve output.

50. (A) Implicit costs.
Economic cost is a broader concept than accounting cost as it includes both explicit expenses and implicit costs. Explicit costs are the actual out-of-pocket payments made by a firm, which are recorded by accountants. Implicit costs represent the opportunity costs of using resources owned by the firm. Therefore, the difference between the total economic cost and the reported accounting cost is the value of these implicit resources, reflecting the true cost of conducting business.

51. (B) P-4, Q-1, R-3, S-2
Individuals have different attitudes toward risk based on how they value uncertain outcomes. Risk-averse people prefer a certain income over a gamble with the same expected value, while risk-neutral individuals are indifferent. Risk-lovers actually prefer the gamble. The certainty equivalent is the guaranteed amount that provides an individual with the same utility as a risky prospect. These concepts are vital for understanding behaviors in insurance, investment, and general strategic economic decision-making processes.

52. (D) Risk-averse behavior.
A concave utility function of income is characterized by diminishing marginal utility of wealth. This means that each additional unit of income provides less satisfaction than the previous one. Individuals with such preferences are risk-averse because the potential loss of utility from losing a certain amount of money outweighs the potential gain in utility from winning the same amount. Consequently, they tend to avoid fair gambles and seek out protection through formal insurance markets.

53. (A) Both Statement I and Statement II are true.
Expected utility theory provides a framework for decision-making under uncertainty by weighting the utility of each possible outcome by its probability. A risk-averse person exhibits a diminishing marginal utility of income, meaning they value each additional dollar less as they become wealthier. This characteristic explains why such individuals prefer a stable, certain income over a risky situation with the same average payoff, forming the mathematical basis for consistent risk-averse economic behavior in various markets.

54. (B) Risk premium.
The risk premium is the maximum amount of money a risk-averse person is willing to pay to avoid a risk. It is calculated as the difference between the expected value of a risky gamble and the certainty equivalent, which is the certain amount that gives the same utility as the gamble. This premium represents the cost of the uncertainty to the individual and explains why people are willing to pay insurance premiums higher than their expected losses.

55. (D) Zero.
For a risk-neutral individual, the marginal utility of income is constant, resulting in a linear utility function. Because they value a risky prospect based solely on its expected monetary value, their certainty equivalent is exactly equal to that expected value. As a result, they do not require any compensation to take on a fair risk, and the risk premium—the difference between the expected value and the certainty equivalent—is zero. This individual focuses only on mathematical averages.

56. (A) Both A and R are true and R is the correct explanation of A.
Diversification is a strategy to reduce risk by spreading investments across different assets. This principle is effective because the returns on various assets typically do not move in perfect unison. When some assets perform poorly, others may perform well, which helps to stabilize the overall portfolio return. By choosing assets that are not perfectly positively correlated, an investor can significantly lower the total variance and volatility of their wealth

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without necessarily sacrificing expected future returns.

57. (C) Increasing the variance of outcomes.
Reducing risk involves strategies that decrease the uncertainty or variability of potential outcomes. Obtaining more information, diversifying investments, and purchasing insurance are all standard methods to manage and lower risk. In contrast, increasing the variance of outcomes actually expands the range of possibilities and increases the volatility, which directly leads to higher levels of risk rather than reducing it. Such an action is contrary to the goal of achieving predictability and financial stability.

58. (A) Less than Rs. 50.
The expected value of this lottery is fifty rupees, calculated as the sum of each outcome multiplied by its probability. A risk-averse individual, due to diminishing marginal utility, values the potential loss of wealth more than an equivalent gain. Therefore, they would find the certain amount of fifty rupees more desirable than the gamble. Consequently, they would only be willing to pay an amount less than the expected value to participate in this specific lottery.

59. (D) Choosing the alternative that maximizes the minimum possible payoff.
The maximin criterion is a conservative decision-making rule used under conditions of uncertainty. It involves evaluating each possible alternative by its worst-case scenario and then selecting the option that has the best worst outcome. By maximizing the minimum possible payoff, a decision-maker ensures they achieve a certain guaranteed level of benefit regardless of which state of nature occurs, effectively providing a safeguard against the most unfavorable conditions that might arise in the future.

60. (B) A risk-averse person's utility function is convex.
Risk-aversion is mathematically represented by a concave utility function, reflecting the law of diminishing marginal utility of income. A convex utility function would represent a risk-loving person, where the marginal utility of income increases as wealth grows. A risk-neutral individual has a linear utility function with constant marginal utility. Insurance markets are built on the demand from risk-averse individuals who are willing to pay a premium to transfer their risk to an insurer for safety.

61. (B) (ii), (iii), and (iv)
For a risk-averse person, the utility of the expected income is higher than the expected utility of the risky income. This is why they prefer the certain amount. Risk-neutral individuals have linear utility functions and evaluate options solely by their expected monetary values. Insurance functions by pooling many independent risks to reduce overall uncertainty, and information has value if it can potentially lead to a decision that yields a higher expected payoff than making choices without it.

62. (D) Risk or variability of payoffs.
Standard deviation is a statistical tool used in economics to quantify the degree of risk or uncertainty associated with a set of possible outcomes. It measures the dispersion of payoffs around their expected value. A higher standard deviation indicates a wider range of potential results and greater volatility, signifying higher risk. Conversely, a lower standard deviation suggests that outcomes are likely to be closer to the average, representing a more predictable and less risky situation.

63. (A) Equal to the expected loss.
An actuarially fair insurance premium is set at a level where it perfectly matches the expected value of the loss being insured. In this case, the insurance company's expected payout equals the premium collected, assuming zero administrative costs or profits. While risk-averse individuals are generally willing to pay more than this amount to gain peace of mind, the actuarially fair price serves as a theoretical benchmark for the basic cost of the risk itself.

64. (B) Risk-neutral.
A risk-neutral person is one who makes decisions based purely on the expected monetary value of outcomes without being influenced by the level of uncertainty. They are indifferent between receiving a certain sum of money and participating in a gamble that has the same

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mathematical expected value. This behavior implies that their marginal utility of wealth is constant, and they do not require a risk premium to accept a fair gamble or pay one to avoid the uncertainty.

65. (B) (ii), (iii), and (iv)
Risk-averse behavior is characterized by actions taken to avoid or mitigate uncertainty. Diversifying a stock portfolio spreads risk, buying insurance protects against large losses, and diminishing marginal utility of wealth means an individual values protecting what they have over gaining more. Conversely, buying a lottery ticket with a low expected value is typically seen as risk-seeking behavior, as the individual is paying for the chance of a high-variance outcome despite a statistically likely monetary loss.

66. (A) The rules of the game.
In game theory, the fundamental structure of any strategic interaction is defined by its players, the set of possible actions or strategies available to each, and the resulting payoffs for every combination of actions. Together, these elements constitute the formal rules or the strategic form of the game. They provide the necessary information to analyze how rational individuals will behave and what outcomes are likely to emerge from their mutual interactions in various economic scenarios.

67. (C) Is optimal for a player, no matter what the other player does.
A dominant strategy is a powerful concept in game theory where a specific choice provides a player with the highest payoff regardless of the strategies chosen by other participants. When a player has a dominant strategy, they do not need to predict or react to their opponent's behavior because their best course of action remains the same in every possible scenario. Identifying dominant strategies is often the first step in solving complex and interdependent strategic games.

68. (D) Players acting in self-interest leads to a collectively inferior outcome.
The Prisoner's Dilemma illustrates a conflict between individual rationality and collective benefit. In this game, each player has a dominant strategy to defect or confess, which is the best choice for them personally regardless of the other's action. However, when both players follow this individual self-interest, they end up in an equilibrium that is worse for both than if they had cooperated. This highlights the difficulty of achieving cooperation without binding agreements or repeated interactions over time.

69. (C) Each player is doing the best they can, given the actions of their opponents.
A Nash Equilibrium is a fundamental solution concept in game theory where no player has an incentive to change their strategy unilaterally. It represents a state of mutual best responses, where each participant's choice is optimal given the strategies chosen by all others. In this equilibrium, everyone's expectations about their opponents' behavior are confirmed, and the resulting strategy profile remains stable because no individual can improve their payoff by deviating on their own without coordination.

70. (A) 2, 1, 3
The development of oligopoly theory began with the Cournot model in the early nineteenth century, which focused on simultaneous quantity competition. This was followed later by the Bertrand model, which shifted the focus to price competition between firms. Finally, the Stackelberg model was introduced in the twentieth century, incorporating sequential decision-making where one firm acts as a leader. This progression shows the increasing complexity and realism in modeling how firms interact in concentrated markets dominated by few firms.

71. (D) Keep its output constant.
The Cournot model is based on the behavioral assumption that each firm in a duopoly decides its own production level while assuming that its competitor's output will remain fixed. Each firm treats the rival's quantity as a given and then chooses its own output to maximize profit. Through a series of adjustments, the firms eventually reach an equilibrium where their expectations about each other's output are fulfilled and neither has an incentive to change their individual production quantity.

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72. (A) Equal to the marginal cost.
In the Bertrand model with identical products and constant costs, firms compete by setting prices. If one firm sets a price slightly lower than its rival, it captures the entire market. This leads to a competitive price war that continues until the price is driven down to the level of marginal cost. At this point, neither firm can lower the price further without incurring losses, resulting in an equilibrium identical to the outcome seen in perfect competition.

73. (C) One firm acts as a leader and moves first.
The Stackelberg model introduces an asymmetrical power structure into oligopoly theory. Unlike the Cournot model where firms move simultaneously, the Stackelberg model is a sequential game. One firm, the leader, chooses its output level first, anticipating how the follower firm will react. The leader utilizes this first-mover advantage to secure a larger market share and higher profits, while the follower must decide its production based on the leader's already established quantity in the market.

74. (A) Zero-sum game.
A zero-sum game is a mathematical representation of a situation in which the total gains and losses of all participants sum to zero. In such a game, one player's gain is exactly balanced by the losses of the other players. This implies a strictly competitive environment where there is no possibility for mutual benefit or cooperation to increase the total payoff. Examples include many simple board games and gambling scenarios where the total wealth remains constant throughout.

75. (A) P-3, Q-1, R-4, S-2
Key game theory concepts describe different strategic realities. A dominant strategy is always the best choice regardless of others' actions. Nash Equilibrium is a stable state where no one benefits from changing alone. The Prisoner's Dilemma shows how individual logic can lead to a poor collective result. The maximin strategy is a cautious approach focused on making the worst possible outcome as good as possible, often used in uncertain or highly competitive strategic environments.

76. (B) A repeated Prisoner's Dilemma.
Tit-for-tat is a highly effective strategy used in repeated interactions, specifically the iterated Prisoner's Dilemma. A player starts by cooperating and then simply mimics their opponent's previous move in all subsequent rounds. This strategy encourages cooperation by rewarding it and discourages defection by immediate retaliation. In long-term relationships, tit-for-tat can help players overcome the dilemma and achieve the mutually beneficial cooperative outcome that is impossible in a single-period, one-shot game interaction between rational players.

77. (C) Players cannot form binding agreements.
The defining characteristic of a non-cooperative game is the absence of an external mechanism or legal framework that allows players to make and enforce binding commitments. While players may still communicate or attempt to coordinate, any agreement reached is only sustainable if it is in each individual's self-interest to follow it. This means the outcomes must be self-enforcing Nash Equilibria, as there is no way to prevent a player from cheating for personal gain.

78. (D) Higher total output than monopoly but lower than perfect competition.
The Cournot duopoly equilibrium represents a middle ground between the extremes of market structures. Because firms compete and do not perfectly coordinate like a monopoly, they produce a larger total quantity at a lower price than a single monopolist would. However, because they still possess some market power and restrict output to keep prices above marginal cost, the total production remains lower than the efficient level achieved in a perfectly competitive, many-firm industry structure.

79. (A) A sequential order of moves.
A game in strategic or normal form is a static representation that focuses on the players, their available strategies, and the payoffs associated with every combination of those strategies. It typically assumes that moves are made simultaneously or that players do not know each other's choices when they act. The sequential order of moves and the detailed timing of the game are captured instead by the extensive form or game tree representation used in dynamic analysis.

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80. (A) Both A and R are true and R is the correct explanation of A.

In the classic Prisoner's Dilemma, each individual faces a situation where confessing yields a shorter sentence compared to remaining silent, regardless of what the other person chooses. This makes confessing a dominant strategy. Because both players are rational and seek to minimize their own punishment, they both choose to confess. The reasoning is sound because it identifies the individual incentive that drives both participants toward the non-cooperative equilibrium, even though silence would be collectively better for them.

81. (B) How much output a firm produces for each possible output level of its rival.

A reaction curve, also known as a best-response function, is a central tool in the Cournot model. It graphically represents the profit-maximizing output level for one firm given every possible quantity produced by its competitor. The intersection of the two firms' reaction curves identifies the Cournot equilibrium. At this point, both firms are on their respective reaction curves, meaning each is producing its best possible output given the other's choice, ensuring stability in the market.

82. (A) It is in the threatener's own interest to carry it out when the time comes.

In sequential games, a threat is only effective if it influences the opponent's behavior. For a threat to be credible, the opponent must believe that the player will actually follow through with it. This belief is only rational if carrying out the threat is the player's optimal choice if the specific situation arises. Empty threats—those that would be too costly for the player to actually execute—are typically ignored by rational opponents in formal game theory analysis.

83. (C) price; quantity

The primary distinction between the Bertrand and Cournot models lies in the strategic variable firms use to compete. In the Bertrand model, firms compete by setting prices, assuming their rivals' prices are fixed. In the Cournot model, firms compete by choosing the quantity of output they will produce, assuming their rivals' quantities are fixed. This fundamental difference in competition style leads to very different market outcomes regarding final prices, total output levels, and individual firm profitability.

84. (D) Both firms charge a price equal to marginal cost.

In a one-shot Bertrand game where products are identical and firms have the same constant costs, any price above marginal cost will be undercut by the competitor seeking to capture the whole market. This aggressive price-cutting continues until the price reaches marginal cost. At this point, firms earn zero economic profit, and the market outcome reflects the efficiency of perfect competition, even when there are only two firms participating in the game environment.

85. (A) (i), (ii), and (iii)

Non-cooperative games are defined by independent decision-making where players focus on their individual payoffs and cannot enter into binding, enforceable agreements. While these games can sometimes lead to efficient outcomes, they often result in Pareto-inefficient states, such as the equilibrium in the Prisoner's Dilemma. The analysis centers on identifying stable outcomes, like Nash Equilibria, where no individual has an incentive to deviate based on their own personal benefits, even if collective gains are possible.

86. (B) The leader knows the follower's reaction function and uses it strategically.

The first-mover advantage in the Stackelberg model arises because the leader has more information and more flexibility. By moving first, the leader can commit to a large output level, knowing exactly how the follower will respond based on its reaction curve. The leader effectively chooses the point on the follower's reaction curve that maximizes the leader's own profit. This strategic commitment forces the follower to settle for a smaller portion of the market and lower profits.

87. (C) Statement I is false, but Statement II is true.

It is not true that every game has a Nash Equilibrium in pure strategies; some games, like matching pennies, only have equilibria in mixed strategies. However, a dominant strategy equilibrium is always a Nash Equilibrium by definition. If every player is playing their best possible strategy regardless of others, then

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they are certainly playing their best response to the specific strategies others have chosen, satisfying the fundamental condition for a Nash Equilibrium in any game.

88. (A) The maximin value is equal to the minimax value.
In a zero-sum game, a saddle point represents an equilibrium in pure strategies. It occurs at a point in the payoff matrix that is both the minimum of its row and the maximum of its column. Mathematically, this means the highest value a player can guarantee for themselves (maximin) is exactly equal to the lowest value their opponent can restrict them to (minimax). When a saddle point exists, the game's outcome is stable and predictable for both participants involved.

89. (C) Randomly choosing actions based on a specific probability distribution.
A mixed strategy involves a player intentionally introducing uncertainty into their behavior by choosing between different available actions according to set probabilities. This is often used in games where no single pure strategy is stable, as it prevents the opponent from accurately predicting and exploiting the player's move. In equilibrium, players choose their probability distributions such that their opponents are indifferent between their own various pure strategies, maintaining overall balance and unpredictability within the strategic interaction.

90. (C) (i), (iii), and (iv)
Cournot firms decide on quantities at the same time, while the Stackelberg model is defined by its sequential moves. The Prisoner's Dilemma provides a powerful framework for understanding why firms often fail to maintain collusive agreements, as each member has an individual incentive to cheat. However, the Bertrand model with differentiated products typically results in prices above marginal cost, and a reaction function shows the best strategy choice rather than just a reaction to received payoffs.

91. (D) Firms are price takers.
The hallmark of a perfectly competitive market is that individual firms have no power to influence the market price. Because there are many small firms selling identical products and buyers have perfect information, any firm that tries to raise its price will lose all its customers. Therefore, each firm must accept the prevailing market price determined by the collective forces of supply and demand, making them price takers in the industry and ensuring price remains constant.

92. (B) Less than average variable cost.
In the short run, a firm must pay its fixed costs regardless of whether it produces anything. Therefore, it will continue to operate as long as its total revenue covers its variable costs, contributing at least something toward its fixed obligations. If the market price falls below the average variable cost, the firm loses more money by staying open than by closing down entirely. This minimum point of the average variable cost curve is the shutdown threshold.

93. (C) Firms earning positive economic profits.
In the long run, the freedom of entry and exit in a perfectly competitive market ensures that all firms earn exactly zero economic profit. If firms were making positive profits, new competitors would enter the industry, increasing supply and driving prices down. Conversely, losses would lead firms to exit. Equilibrium is achieved when the price equals both the marginal cost and the minimum of the average total cost curve, ensuring maximum efficiency and normal profit for firms.

94. (D) The presence of significant and persistent economies of scale.
A natural monopoly arises in industries where the average cost of production continues to decline over the entire range of market demand. This is typically due to high fixed costs and low marginal costs, such as in utility networks for water or electricity. In these cases, a single large firm can produce the entire industry's output more cheaply than two or more smaller firms could, making competition inefficient and naturally leading to a single provider in the market.

95. (A) P-4, Q-3, R-2, S-1
Different market structures are defined by unique competitive environments. Perfect competition features many price-taking firms

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with identical products. A monopoly consists of a single seller with high entry barriers. Monopolistic competition involves many firms selling differentiated products with easy entry. Oligopoly is characterized by a small number of large firms whose decisions are strategically interdependent, meaning each firm's actions significantly affect and are affected by its competitors' choices, requiring careful strategic planning by all firms.

96. (B) To customers at different prices for reasons not related to cost.

Price discrimination is a pricing strategy where a firm with market power charges different prices to different consumers for the same good or service. This practice is not based on differences in production costs but rather on varying willingness to pay or different price elasticities of demand among customer groups. To succeed, the firm must be able to segment the market and prevent customers from reselling the product to one another at a lower price for profit.

97. (B) Perfectly elastic.

An individual firm in a perfectly competitive market faces a horizontal, or perfectly elastic, demand curve at the prevailing market price. This is because the firm is a price taker; it can sell any quantity of its homogeneous product at the market price, but none at all if it charges even slightly more. The firm has no incentive to charge less than the market price because it can already sell as much as it wants at that level.

98. (A) Product differentiation.

The defining difference between monopolistic competition and perfect competition is product differentiation. While perfectly competitive firms sell identical goods, firms in monopolistic competition sell products that are slightly different due to branding, quality, or features. This differentiation gives each firm a small amount of market power and a downward-sloping demand curve. However, like perfect competition, monopolistic competition still features many firms and free entry and exit in the long run for all firms.

99. (C) Price rigidity in oligopolistic markets.

The kinked demand curve model, developed by Paul Sweezy, explains why prices in oligopolies often remain stable despite changes in costs. The model assumes that competitors will match a firm's price cuts to protect their market share but will not follow its price increases. This creates a kink in the demand curve and a gap in the marginal revenue curve. As long as marginal costs stay within this gap, the firm has no incentive to change its price.

100. (A) Both A and R are true and R is the correct explanation of A.

Unlike firms in perfect competition, a monopolist does not have a unique supply curve that shows quantity as a function of price alone. Instead, a monopolist's production decision depends on the interaction of its marginal cost, the marginal revenue, and the elasticity of market demand. A change in demand can lead to different prices for the same quantity or different quantities for the same price, meaning there is no one-to-one relationship between price and quantity.

101. (C) The firm must segment the market into groups with different price elasticities.

Third-degree price discrimination requires a firm to divide its customers into distinct groups based on observable characteristics, such as age or location, that correlate with their price sensitivity. By charging a higher price to groups with inelastic demand and a lower price to those with elastic demand, the firm can increase its total profit. Success depends on the firm's ability to maintain these segments and effectively prevent resale between high-price and low-price groups in the market.

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102. (B) The firm's demand curve is tangent to its average total cost curve.

In the long run, the entry of new firms into a monopolistically competitive market shifts existing firms' demand curves to the left until all economic profits are eliminated. Equilibrium occurs where the downward-sloping demand curve is exactly tangent to the average total cost curve. At this point, the price equals the average cost, ensuring zero economic profit. However, because the demand curve is sloped, this tangency occurs to the left of the minimum average cost point.

103. (D) Net loss of total surplus due to monopolistic pricing inefficiency.

Monopoly results in economic inefficiency because the firm restricts output to a level where the price exceeds marginal cost. This creates a deadweight loss, representing the potential gains from trade that are lost because some consumers value the product more than its cost of production but less than the monopoly price. This loss of total surplus—including both consumer and producer surplus—is a primary justification for antitrust laws and the regulation of monopolistic power in the economy.

104. (A) Firms are independent of each other.
A central characteristic of oligopoly is the strategic interdependence of firms. Because there are only a few large sellers, each firm must carefully consider the potential reactions of its rivals when making decisions about pricing or output. This interdependence distinguishes oligopoly from both perfect competition and monopoly, where firms can act without worrying about direct competitive responses. Oligopolies also typically feature significant entry barriers and can involve either identical or differentiated products depending on the specific market.

105. (B) (i), (ii), and (iii)
Perfect competition is unique in achieving both allocative efficiency, where price equals marginal cost, and productive efficiency, where goods are produced at minimum cost. Monopolies fail allocative efficiency by charging prices above marginal cost. Monopolistic competition is considered inefficient because firms produce with excess capacity, meaning they don't operate at the lowest possible average cost. Oligopolies, due to market power and potential collusion, also typically fall short of these efficiency benchmarks in the long run market.

106. (A) The tendency for prices to be stable even when costs change.
In the kinked demand curve model, the gap or discontinuity in the marginal revenue curve occurs directly below the kink in the demand curve. This gap allows the marginal cost curve to shift up or down within a certain range without changing the profit-maximizing level of output or the associated price. This mathematical property provides a theoretical explanation for why oligopolistic firms often maintain rigid prices even when their production costs experience moderate or minor fluctuations.

107. (D) Less than the output level corresponding to the minimum average total cost.
Excess capacity is a hallmark of the long-run equilibrium in monopolistic competition. Because firms face downward-sloping demand curves, the point of tangency with the average total cost curve inevitably occurs on its downward-sloping portion. This means the firm produces a smaller quantity than the amount that would minimize its average cost. Socially, this indicates that the market could produce more at a lower per-unit cost if there were fewer firms and less product differentiation in the market.

108. (B) Marginal revenue equals marginal cost.
Like firms in any other market structure, a monopolist maximizes its total profit by producing the specific quantity of output where the marginal revenue gained from the last unit exactly equals the marginal cost of producing it. Once this quantity is determined, the monopolist uses the market demand curve to set the highest price consumers are willing to pay for that amount. Any other level of production would result in lower total profit for the producing firm.

109. (C) Statement I is true, but Statement II is false.
In perfect competition, a firm's supply curve is clearly defined as its marginal cost curve above the shutdown point. However, a monopoly does not have a unique supply curve because its production decisions depend on the shape and elasticity of the demand curve as well as its costs. For a monopolist, the same price can lead to different quantities, or different prices can lead to the same quantity, depending on market demand shifts, making a simple supply function logically impossible.

110. (C) (i), (iii), and (iv)
Perfectly competitive firms must accept the market price, while product differentiation is the key that allows monopolistically competitive firms to have some control over their prices. In oligopolies, the small number of firms makes strategic interaction essential. In contrast, a monopolist is constrained by the market demand

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curve and cannot charge an infinite price, and monopolies are characterized by high, rather than low, barriers that prevent new entrants from joining the market or competing effectively for share.

111. (A) Competing through advertising, branding, and product quality.

Non-price competition involves firms attempting to attract customers through methods other than lowering prices. This is common in monopolistic competition and oligopoly, where firms use advertising, brand loyalty, improved product quality, and superior customer service to differentiate their offerings. By making their products appear unique or more desirable, firms can shift their demand curves to the right and gain market share without triggering aggressive price wars with their competitors which could hurt overall industry profits.

112. (B) Charges each customer the maximum price they are willing to pay.

Perfect or first-degree price discrimination occurs when a monopolist knows exactly how much each individual consumer values the product and charges them their maximum willingness to pay, also known as their reservation price. Under this strategy, the firm captures all available consumer surplus, turning it into producer profit. While this maximizes the firm's gain and results in an efficient level of output where price equals marginal cost, it leaves no surplus for the individual consumers themselves.

113. (B) The price of the product is equal to the marginal cost of producing it.

Allocative efficiency is achieved when resources are distributed in a way that maximizes social welfare, which occurs when the price of a good matches its marginal cost of production. This ensures that the value consumers place on the last unit produced is exactly equal to the value of the resources used to produce it. Perfect competition naturally leads to this state, whereas monopoly and monopolistic competition generally fail to achieve it by pricing well above marginal cost.

114. (A) The average revenue is equal to the average variable cost.

The shutdown point for a firm in a competitive market is reached when the price, which is also the average revenue, drops to the minimum point of the average variable cost curve. At this price, the firm's total revenue just barely covers its total variable costs, leaving nothing to pay for fixed costs. If the price falls any lower, the firm's losses will exceed its total fixed costs, making it more rational to cease operations immediately for survival.

115. (A) 2, 3, 1

Assuming identical cost structures, a monopoly will typically charge the highest price because it has complete market power and faces no competition. A firm in monopolistic competition will charge a lower price than a monopolist but higher than in perfect competition, due to some market power from product differentiation. Perfect competition results in the lowest price, as the lack of market power and intense competition drive prices down to the level of marginal cost for all participants.

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116. (D) At the lowest possible cost.

Productive efficiency is a situation where an economy or a firm produces a good at the minimum possible per-unit cost. This occurs in the long run when production takes place at the lowest point on the long-run average cost curve. Achieving productive efficiency means that no resources are being wasted and the firm is using the most efficient combination of inputs and the best available technology to generate its specific level of output for the market.

117. (C) Monopoly - Productively efficient

Monopolies are generally considered inefficient in two ways. They lack allocative efficiency because they charge a price higher than marginal cost. They also typically lack productive efficiency because, without competitive pressure, they do not necessarily operate at the minimum point of their average cost curve. In contrast, perfectly competitive firms are both allocatively and productively efficient in the long run, and monopolistically competitive firms are known for maintaining excess capacity as part of their operations.

118. (B) Monopolistic Competition

Monopolistic competition is a market structure that combines elements of both monopoly and competition. It is defined by a large number of independent firms that sell differentiated products, allowing each to have some degree of control over its price. The presence of many sellers and the absence of significant barriers to entry and exit ensure that, like perfect competition, firms in this market structure earn only normal profits in the long run, reflecting its competitive nature.

119. (D) Act together as a single monopolist to maximize joint profits.

A cartel is a formal organization of firms in an oligopolistic industry that enter into an agreement to coordinate their pricing and output decisions. By acting together as a single monopolist, they can restrict total industry production and raise prices to levels that maximize their combined profits. Cartels are generally unstable because each individual member has a strong incentive to cheat by increasing its own output to gain even more profit at the high market price.

120. (A) P-4, Q-3, R-2, S-1

Oligopoly models differ based on the variables firms choose. Cournot firms simultaneously pick quantities, while Bertrand firms compete by setting prices. The Stackelberg model features sequential quantity setting with a leader and a follower. The kinked demand curve model focuses on explaining why prices remain rigid and do not change frequently despite cost shifts. These various frameworks help economists understand different types of strategic behavior in concentrated markets dominated by few firms with significant market influence.

121. (C) Price is greater than marginal cost, and production is not at minimum cost.

The long-run inefficiency in monopolistic competition stems from the downward-sloping demand curve created by product differentiation. To maximize profit, firms set a quantity where marginal revenue equals marginal cost, leading to a price higher than marginal cost. Additionally, the zero-profit condition forces the firm to operate at a point where the demand curve is tangent to the average total cost curve, which necessarily occurs above the minimum cost level, resulting in permanent excess capacity.

122. (A) If it is forced to price at the point where P = MC.

The socially optimal or allocatively efficient level of output occurs where the value to society (price) equals the cost of producing the last unit (marginal cost). Since a monopolist naturally restricts output to maximize its own profit, the government can achieve an efficient outcome by regulating the firm and mandating it to set its price equal to its marginal cost. This forces the monopolist to produce the same quantity that would be provided in a competitive market.

123. (D) Monopoly power.

The Lerner Index is a widely used metric in industrial organization to quantify the degree of monopoly power held by a firm. It measures the firm's ability to set price above marginal cost. The index ranges from zero to one; a value of zero indicates perfect competition, where price equals marginal cost. As the index increases, it signifies that the firm has greater control over its pricing and can sustain higher profit margins by exerting market power in the industry.

124. (B) $\frac{P - MC}{P}$

The Lerner Index is mathematically defined as the difference between the price and the marginal cost, divided by the price. This formula provides a normalized measure of a firm's markup. Interestingly, the index is also inversely related to the price elasticity of demand faced by the firm. A firm facing a more inelastic demand curve will have a higher Lerner Index, reflecting its greater ability to raise prices without losing a significant portion of its customers in the market.

125. (A) Both A and R are true and R is the correct explanation of A.

In monopolistic competition, consumers benefit from a wide variety of differentiated products that cater to their specific tastes. However, providing this variety comes at a cost of economic efficiency. Because each firm has a unique product, it faces a downward-sloping demand curve, leading to prices above marginal cost and production at a level higher than the minimum average cost. This excess capacity is the social price paid for the benefit of having diverse and varied consumption choices.

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126. (D) Extensive advertising campaigns.
Advertising is a classic form of non-price competition used by firms to differentiate their products and build brand loyalty. Instead of engaging in risky price wars, firms invest in marketing to persuade consumers that their product is superior or unique. Successful advertising shifts the firm's demand curve to the right and makes it more inelastic, allowing the firm to sell more units or maintain higher prices without losing market share to competitors who offer similar goods for sale.

127. (A) Each member has an incentive to cheat on the agreement to increase its own profit.
Cartels are inherently fragile because the very success of the agreement creates an incentive for members to break it. Once the cartel has successfully restricted output and raised the market price, an individual firm can dramatically increase its own profits by secretly producing and selling more than its assigned quota. If multiple members follow this logic, the total market supply increases, the high price collapses, and the cartel agreement ultimately fails, leading back to competition.

128. (B) Perfectly elastic (horizontal).
In a constant-cost industry, the entry and exit of firms do not affect the prices of the inputs used in production. As the industry expands in response to higher demand, new firms enter and use resources at the same cost as existing firms. In the long run, the industry's total output can increase without any change in the long-run equilibrium price. This results in a perfectly elastic or horizontal long-run industry supply curve at the minimum cost level.

129. (B) Demand is more inelastic.
The deadweight loss caused by a monopoly is the area between the demand curve and the marginal cost curve for the units of output that the monopolist chooses not to produce. When demand is more inelastic, the demand curve is steeper, and the gap between the monopoly price and the marginal cost is larger. This leads to a greater loss of total surplus for any given reduction in output, making the monopolistic distortion more severe from a social welfare perspective.

130. (A) (i), (ii), and (iv)
Perfect competition is Pareto efficient because it maximizes total surplus. Monopolies create a deadweight loss by restricting supply. While monopolistic competition is inefficient due to excess capacity, it's because price is greater than marginal cost, not equal. Interestingly, oligopolies can sometimes be forced into competitive outcomes, such as in the Bertrand model, where intense price competition between even a few firms can drive market prices down to the level of marginal cost and improve overall efficiency in the market.

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131. (C) All of the above.
Price leadership is a common practice in oligopolies where one firm sets the price and others follow to avoid destructive price wars. It can take several forms. Barometric leadership occurs when a firm with good market insight sets a price that reflects changing conditions. Dominant leadership happens when the largest firm in the industry dictates the price. Collusive leadership involves a more formal or tacit agreement among firms to follow a specific leader's pricing decisions for their mutual profit.

132. (D) Pervasive economies of scale.
A natural monopoly is defined by its cost structure. When a firm experiences economies of scale over the entire range of output needed to satisfy market demand, its average cost of production continues to fall as it grows larger. This makes it impossible for small new firms to compete effectively, as they would have much higher per-unit costs. Consequently, the most efficient way to serve the market is through a single provider, though such firms are often regulated.

133. (C) The portion of its marginal cost curve that lies above the minimum point of its average variable cost curve.
A perfectly competitive firm's supply decision is based on its marginal cost. In the short run, the firm will only produce if the market price is at least equal to its average variable cost. For any price above this level, the firm's profit-maximizing quantity is found where price equals marginal cost. Therefore, the firm's supply curve is specifically the upward-sloping part of its marginal cost curve that starts from

the shutdown point at the minimum average variable cost.

134. (B) Marginal revenue can become negative.
For a monopolist to sell an additional unit, it must lower the price of all units sold, not just the last one. This means that marginal revenue is always less than the price. As the firm continues to expand output, the decrease in price can eventually outweigh the gain from selling more units, causing total revenue to fall and marginal revenue to become negative. This happens in the inelastic portion of the demand curve, where the monopolist will never choose to operate.

135. (A) (i), (ii), and (iv)
Successful price discrimination requires three key elements. First, the firm must have market power to set prices. Second, it must be able to identify and separate different groups of consumers based on their varying willingness to pay. Finally, the firm must be able to prevent arbitrage, which is the practice of customers in the low-price segment reselling the good to those in the high-price segment. If elasticities were identical across segments, the firm would have no reason to charge different prices.

136. (A) P > MC and P = ATC
In the long-run equilibrium of monopolistic competition, the entry and exit of firms ensure that all economic profits are zero, meaning price equals average total cost. However, because each firm faces a downward-sloping demand curve, its marginal revenue is less than the price. To maximize profit, the firm produces where marginal revenue equals marginal cost, leading to an equilibrium price that is greater than the marginal cost. This gap represents the mark-up over marginal cost due to product differentiation.

137. (C) Markets with few firms can behave competitively if entry and exit are costless.
The theory of contestable markets suggests that the number of firms in an industry is less important for efficiency than the threat of entry. If a market has no sunk costs and firms can enter and exit without loss, even a single monopolist will be forced to charge a competitive price equal to average cost to prevent hit-and-run entry by potential rivals. This theory emphasizes the importance of lowering barriers to entry for maintaining market efficiency and preventing monopolistic behavior.

138. (A) All market structures except perfect competition.
Perfect competition is the benchmark for efficiency because it is the only market structure that achieves both allocative and productive efficiency in the long run. Monopoly, monopolistic competition, and oligopoly all fall short. Monopolies and oligopolies generally charge prices above marginal cost and may not produce at minimum average cost. Monopolistically competitive firms also charge prices above marginal cost and maintain excess capacity. Therefore, some form of market failure and inefficiency is inherent in all structures except perfect competition.

139. (D) smaller; higher
When oligopolistic firms form a cartel, they agree to stop competing and instead act like a single monopolist. Their goal is to maximize their collective profit by restricting the total industry output. By producing a smaller total quantity than would be provided in a competitive market, the cartel creates an artificial shortage that drives the market price higher. This allows the member firms to earn supernormal profits at the expense of consumers, who pay more and receive less of the good.

140. (A) $P-4, Q-1, R-2, S-3$
Unique terms define specific market environments. Price taker describes the lack of market power in perfect competition. The kinked demand curve is a classic tool used to explain price rigidity in oligopoly. Product differentiation is the core feature that gives monopolistically competitive firms some control over their prices. Finally, natural monopoly describes an industry where a single firm can serve the entire market more efficiently due to permanent and large-scale economies of scale that prevent effective competition from smaller firms.

141. (C) Deadweight loss.
While monopolies are often criticized for high prices and excessive profits, the primary

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social cost from an economic standpoint is the deadweight loss. This represents the total surplus—both consumer and producer benefits—that is completely lost because the monopolist restricts output below the socially efficient level where marginal cost equals marginal value. This inefficiency means the economy is producing less of a good than individuals are willing to pay for, representing a net loss to society's overall economic welfare.

142. (D) Consumers pay an initial entry fee and then a per-unit price for the good.

A two-part tariff is a common pricing strategy used by firms with market power, such as health clubs or amusement parks. It consists of a fixed entry fee that grants the consumer the right to purchase the good, followed by a usage fee for each unit actually consumed. Ideally, the firm can use the entry fee to capture the consumer's surplus while setting the per-unit price closer to marginal cost to encourage consumption and maximize total revenue for the firm.

143. (A) Restaurants.

Restaurants are an excellent example of monopolistic competition because there are many of them, and entry into the market is relatively easy. Each restaurant offers a differentiated product through its unique menu, atmosphere, service, and location. This allows each establishment to have some influence over its prices. However, since they compete with many other similar dining options, their market power is limited, and they generally only earn normal economic profits over the long term in a competitive environment.

144. (B) Upward-sloping.

In an increasing-cost industry, the expansion of production causes the prices of key inputs to rise, which increases the costs for all firms in the industry. As the market demand grows and new firms enter, the minimum average total cost for each firm shifts upward. Consequently, the industry can only supply a larger total quantity at a higher long-run equilibrium price. This results in a long-run industry supply curve that is upward-sloping rather than perfectly horizontal in its structure.

145. (A) Both A and R are true and R is the correct explanation of A.

In a perfectly competitive market, if existing firms are earning supernormal profits, new firms will be attracted by the high returns and enter the industry. This entry increases total supply, which drives down the market price until the extra profit is eliminated. Conversely, if firms are making losses, some will exit, reducing supply and raising the price. This process continues until every remaining firm earns exactly a normal profit, where price equals average total cost and all incentives settle.

146. (A) Capture all consumer surplus as producer surplus.

A monopolist practicing first-degree price discrimination charges each customer their exact maximum willingness to pay. As a result, there is no difference between what a customer pays and what they are willing to pay, completely eliminating consumer surplus. While this outcome is efficient because the firm produces the same total quantity as a perfectly competitive market, the entire benefit of the trade is captured by the producer as profit, resulting in an extreme distributional imbalance in the market outcome.

147. (C) Monopolistically competitive firms operate at a point of excess capacity.

The key structural difference in the long-run equilibrium of these two market types relates to productive efficiency. Perfectly competitive firms are forced by competition to produce at the lowest point of their average cost curve. However, because monopolistically competitive firms face downward-sloping demand curves, their point of tangency with the average cost curve necessarily occurs where costs are still falling. This means they produce less than the most efficient volume, maintaining excess capacity as a consequence of their product differentiation.

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148. (D) Derived demand.

The demand for factors of production, such as labor, land, and capital, is known as derived demand because it does not arise from the direct satisfaction they provide to consumers. Instead, it is derived from the demand for the final goods and services that these factors help to produce. A

firm's desire to hire more workers, for example, depends directly on the market's demand for the products those workers create and the revenue they generate for the producing firm.

149. (C) The factor's price equals its marginal revenue product.

According to the marginal productivity theory of distribution, a profit-maximizing firm will continue to hire additional units of a factor as long as the extra revenue generated by that unit exceeds its cost. The optimal point is reached when the price of the factor is exactly equal to its marginal revenue product. At this equilibrium, the firm cannot increase its total profit by changing the amount of the factor it employs, ensuring the most efficient and logical use of resources.

150. (A) (i), (ii), and (iii)

In factor markets, the demand for an input is fundamentally tied to its productivity and the value it adds to the firm's output. In competitive environments, prices are determined by the interaction of demand and supply. Marginal revenue product is specifically the extra output produced multiplied by the price it is sold for. However, the supply of labor is not always upward-sloping; it can sometimes bend backward if the income effect of higher wages outweighs the substitution effect for the worker.

151. (D) The change in total revenue resulting from employing one more unit of the factor.

Marginal Revenue Product is a key concept in the theory of distribution. It measures the additional revenue a firm earns by employing one more unit of a variable factor, such as labor, while keeping other inputs constant. It is calculated by multiplying the factor's marginal physical product by the marginal revenue received from selling that additional output. This value represents the maximum wage or price a firm is willing to pay for that specific unit of the variable factor.

152. (A) Marginal Revenue Product (MRP) curve.

In a perfectly competitive factor market, a firm's demand curve for a single variable input is its marginal revenue product curve. This is because the MRP curve shows the value the firm gains from hiring each additional unit of the factor at any given wage or price. Since the law of diminishing returns applies, the marginal physical product—and therefore the MRP—declines as more of the factor is added, resulting in a downward-sloping demand curve for the specific variable factor.

153. (C) The income effect outweighs the substitution effect.

As the wage rate increases, two opposing forces influence a worker's decision. The substitution effect makes leisure more expensive, encouraging the individual to work more. The income effect makes the worker wealthier, allowing them to afford more leisure. If the wage becomes high enough, the income effect may become stronger, leading the worker to choose more leisure and less work. This causes the individual labor supply curve to bend backward at high wage levels, indicating a reduction in work hours.

154. (A) The payment to a factor of production in excess of its opportunity cost.

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Economic rent is the portion of a factor's total earnings that exceeds the minimum payment required to keep that factor in its current use. This minimum payment is the factor's opportunity cost, or transfer earning. Economic rent typically arises when the supply of a factor is relatively inelastic, meaning its quantity cannot easily increase in response to a higher price. It represents a surplus earned by the factor owner due to the resource's relative scarcity in the economic market.

155. (A) (i), (ii), and (iii)

Factor demand is always derived from the demand for the final product. Value of marginal product is correctly calculated by multiplying the output price by the marginal physical product. In perfect competition, firms hire inputs until this value equals the input's price. However, a monopsonist pays a factor less than its marginal revenue product to maximize profit. Also, quasi-rent is a short-run phenomenon that occurs when the supply of a factor is temporarily fixed, disappearing as more units enter in the long run.

156. (B) Varies in fertility.

David Ricardo's theory of rent is based on the observation that land is not homogeneous but varies in its natural fertility and location.

As the demand for food increases, society is forced to bring less fertile or marginal land into cultivation. Rent arises on the more fertile land as a surplus because its production costs are lower than those on the least fertile land in use. This surplus is paid to the landlord purely due to the land's superior quality.

157. (A) Both Statement I and Statement II are true.
Quasi-rent is a concept introduced by Alfred Marshall to describe the short-run earnings of man-made factors of production, like machinery, whose supply is fixed in the short term. Like land rent, these earnings are determined by demand. However, unlike land, the supply of these factors can be increased in the long run. As more of these factors are produced in response to high earnings, the surplus eventually disappears, and the factor earns only its normal long-run economic return.

158. (D) Keynes's Liquidity Preference Theory of Interest.
John Maynard Keynes proposed that the rate of interest is a purely monetary phenomenon determined by the demand for and supply of money. Central to this theory is liquidity preference, which is the desire of individuals to hold their wealth in the form of liquid cash rather than less liquid assets like bonds. According to Keynes, interest is the reward for parting with this liquidity for a specified period, and the rate adjusts to balance people's desire for cash with the available money supply.

159. (A) A single buyer of a factor.
A monopsony is a market structure characterized by a single buyer who faces many sellers. In a factor market, this means there is only one firm hiring a specific type of resource, such as labor in a remote mining town. Because the monopsonist is the only buyer, it faces the entire market supply curve and has the power to influence the price of the factor. To maximize profit, a monopsonist typically hires fewer units and pays a lower price than competition.

160. (A) 1, 2, 3
The theories of profit developed as economists sought to explain the unique role of the entrepreneur. Early theories like Hawley's emphasized profit as a reward for bearing known risks. Schumpeter later highlighted innovation and the introduction of new products or processes as the primary source of profit. Finally, Frank Knight refined the distinction between risk and uncertainty, arguing that true profit is the reward for bearing uninsurable and unpredictable uncertainty. This progression reflects a deepening understanding of entrepreneurial activity in modern economies.

161. (B) lower; lower
In a monopsonistic labor market, the firm faces an upward-sloping supply curve, meaning it must pay a higher wage to attract more workers. This also increases the marginal factor cost above the wage rate. To maximize profit, the monopsonist hires the quantity where marginal revenue product equals marginal factor cost. This results in both a lower level of employment and a lower wage rate compared to a perfectly competitive labor market, where many firms compete for the same pool of workers.

162. (A) Bearing non-insurable uncertainty.
Frank Knight distinguished between risk, which can be calculated and insured against, and uncertainty, which is unique and unpredictable. He argued that if all outcomes were predictable, competition would drive economic profits to zero. Therefore, true profit only arises as a reward for the entrepreneur's willingness to bear the burden of uninsurable uncertainty. This uncertainty stems from unforeseen changes in market demand, technology, or other economic conditions that cannot be covered by traditional, standard insurance contracts or statistical models.

163. (C) Marginal Revenue Product (MRP).
Marginal Revenue Product is the increase in a firm's total revenue that results from selling the additional output produced by adding one more unit of a variable factor of production. It combines both the physical productivity of the factor and the market conditions for the final good. While the marginal physical product focuses only on units produced, the MRP provides a monetary value, which is the crucial metric used by firms to determine the maximum price they should pay for that factor.

164. (D) Marginal Revenue (MR) is equal to Price (P).

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Value of Marginal Product is defined as the marginal physical product multiplied by the output price, while Marginal Revenue Product is the marginal physical product multiplied by the marginal revenue. In a perfectly competitive output market, a firm can sell any amount of its product at the market price, meaning its marginal revenue is exactly equal to the price. Therefore, for a competitive firm, these two measures are identical, representing the same value added by an extra unit of input.

165. (A) P-4, Q-1, R-2, S-3

Major economic theories provide foundations for understanding factor prices. J.B. Clark developed the marginal productivity theory. David Ricardo is famous for his theory of land rent based on fertility. J.M. Keynes introduced the liquidity preference theory of interest rates. Joseph Schumpeter identified innovation as the dynamic force that generates entrepreneurial profits. These diverse perspectives illustrate the various ways economists have conceptualized the returns to labor, land, capital, and entrepreneurship in the functioning of a modern market economy.

166. (B) Perfectly inelastic.

Pure economic rent occurs when the supply of a factor of production is completely fixed and does not change regardless of the price offered. In this case, the supply curve is perfectly inelastic. Since the quantity is fixed, the entire payment made to the factor is determined by demand and exceeds what is necessary to bring the factor into production. The classic example is land in its original, natural state, where the total supply is physically limited and cannot be increased by producers.

167. (D) In a competitive labor market, marginal factor cost is less than the wage.

In a perfectly competitive labor market, a firm can hire as many workers as it needs at the prevailing market wage. This means that the cost of hiring an additional worker—the marginal factor cost—is exactly equal to the wage paid. It is only in a monopsony, where the firm must raise wages to attract more labor, that the marginal factor cost becomes greater than the wage, because the higher wage must be paid to all existing workers as well.

168. (A) Demand for and supply of loanable funds.

The loanable funds theory is a neo-classical framework that explains the determination of the real interest rate. It suggests that interest is the price of loanable funds, determined by the intersection of the total demand for these funds and the total supply. This theory integrates both monetary factors and real factors like thrift and productivity to explain how the market for credit reaches equilibrium in an economy. It considers factors like savings, investment, and bank credit as key components.

169. (C) The reward for successful innovation.

Joseph Schumpeter viewed the entrepreneur as a dynamic force who drives economic development through innovation. According to his theory, profit is not a routine return but a temporary surplus that arises when an entrepreneur introduces a new product, opens a new market, or implements a more efficient production process. Competition eventually erodes these profits as others adopt the innovation, but the continuous cycle of creative destruction ensures that new profits are generated by subsequent innovators in a growing economy.

170. (A) Both A and R are true and R is the correct explanation of A.

A monopsonist faces the market supply curve for labor, which is upward-sloping. To hire an additional worker, the firm must offer a higher wage to attract them. Crucially, the firm usually cannot practice wage discrimination and must pay this new, higher wage to all its currently employed workers too. This means the total increase in labor costs—the marginal factor cost—is much higher than the wage paid to the last worker alone, causing the MFC curve to lie above the supply curve.

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171. (D) The sum of factor payments according to marginal products exhausts total product.

The adding-up problem concerns whether paying each factor of production its marginal product will exactly use up the total physical output produced. Euler's theorem provides the mathematical solution, showing that if the production function exhibits constant returns to scale, the total product is indeed exhausted by these payments. This proof is essential for

the marginal productivity theory, as it ensures that the theoretical distribution of income is consistent with the total amount of goods available for social distribution.

172. (B) Work more, as the opportunity cost of leisure has increased.

The substitution effect of a wage increase describes how workers react to a change in the relative price of their time. Since the wage represents the income lost by choosing not to work, a higher wage increases the opportunity cost of leisure. This makes taking time off more expensive in terms of foregone earnings. Consequently, the substitution effect always encourages individuals to work more and consume less leisure, leading to an upward-sloping labor supply curve in this specific economic context.

173. (C) Risk involves known probabilities, while uncertainty involves unknown probabilities.

Frank Knight's fundamental distinction lies in the measurability of the future. Risk refers to situations where the potential outcomes are known and their likelihood can be accurately estimated using statistical methods, allowing for insurance. Uncertainty refers to unique, non-repeatable events where the probabilities of different outcomes cannot be determined. This distinction is vital in economics because it explains why some business activities can be managed as costs, while others require entrepreneurial judgment and provide the basis for true profit.

174. (D) The minimum payment required to keep the factor in its current use.

Transfer earning is the opportunity cost of a factor of production. It represents the maximum income that the factor could earn in its next-best alternative employment. For a factor to remain in its current job or use, it must be paid at least this amount. Any payment received above the transfer earning is considered economic rent. Therefore, transfer earnings represent the base payment necessary to prevent a resource from moving to another industry or occupation for a higher return.

175. (D) All of the above.

The marginal productivity theory of distribution is a comprehensive framework built on several strict assumptions. It requires perfectly competitive markets, homogeneous and infinitely divisible factors, and the operation of the law of diminishing returns. By assuming that firms are rational profit-maximizers, it explains that the price of any factor is determined by its marginal contribution to the firm's revenue. These assumptions allow for a clear, although idealized, mathematical model of how income is distributed among various resources.

176. (B) Considers interrelationships and feedbacks among all markets simultaneously.

While partial equilibrium analysis examines a single market in isolation, general equilibrium analysis looks at the entire economy as a system of interconnected markets. It recognizes that changes in one market, such as the price of steel, will affect other markets, like automobiles and labor, which in turn feed back into the original market. This comprehensive approach is necessary to understand how the economy achieves an overall balance across all goods and factors of production in the long run.

177. (B) Leon Walras.

Leon Walras, a French economist, is credited with the first formal development of general equilibrium theory in the late nineteenth century. He sought to prove that a set of prices exists that can simultaneously bring all markets in an economy into balance. Walras used a system of simultaneous equations to represent the interdependencies between consumers and producers across all sectors, laying the mathematical foundation for modern macroeconomics and the study of how complex market systems function together.

178. (B) (i), (ii), and (iii)

A Walrasian general equilibrium is defined by three fundamental conditions. First, all consumers must maximize their utility within their budget. Second, all firms must maximize their profits given their technology. Finally, all markets must clear, meaning the total quantity demanded for every good and factor equals the total quantity supplied. While being on the production possibility frontier is a result of an efficient equilibrium, the basic definition centers

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on the simultaneous optimization and market-clearing across the entire economic system.

179. (C) The total value of excess demand in the economy must be zero.
Walras's Law is a fundamental identity in general equilibrium theory. It states that at any set of prices, the total value of all goods demanded in the economy must exactly equal the total value of all goods supplied. This implies that the sum of the values of excess demands across all markets is always zero. A crucial consequence is that if all markets but one are in equilibrium, the last market must also be in equilibrium, simplifying the mathematical analysis of economies.

180. (D) The distribution of goods between two individuals or inputs between two production functions.
The Edgeworth Box is a versatile graphical representation used in welfare economics and general equilibrium analysis. By placing two sets of indifference curves or isoquants back-to-back, it creates a box whose dimensions represent the total available resources in a simple two-party economy. This tool allows economists to visualize and analyze all possible ways to allocate those resources, identifying which distributions are efficient, which are mutually beneficial, and how trade can lead to improvements for all participants.

181. (C) All allocations where the individuals' indifference curves are tangent.
In an Edgeworth Box for consumption, the contract curve is the locus of all Pareto-efficient points. These are allocations where the marginal rate of substitution for one consumer is exactly equal to the marginal rate of substitution for the other. At these points, the consumers' indifference curves are tangent to each other, meaning it is impossible to rearrange the goods to make one person better off without making the other person worse off through further exchange or trade.

182. (B) Two consumers, two goods, two factors of production.
The 2x2x2 model is the simplest complete framework for general equilibrium analysis. It includes two individual consumers with their own preferences, two distinct goods produced in the economy, and two primary factors of production, usually labor and capital. This model is used to demonstrate how the consumption, production, and factor markets interact simultaneously to determine prices and allocations, providing a manageable but powerful way to study the fundamental interconnections of an entire economic system.

183. (A) (i), (ii), and (iv)
General equilibrium theory is a sophisticated field that explicitly handles the complex feedback loops between different markets. The formal proof that such an equilibrium can exist was a major achievement by Kenneth Arrow and Gerard Debreu. The Edgeworth box serves as a primary tool to illustrate efficiency and the gains from trade. However, it is fundamentally a long-run analysis of the economy's structural balance, and Walras's Law applies to the total value of excess demand in the system.

184. (A) The contract curve in an Edgeworth box for production.
The production possibility frontier represents the maximum combinations of two goods that can be produced using all available resources efficiently. It is derived directly from the contract curve in an Edgeworth box for production, which connects all points where the marginal rate of technical substitution is equal for both goods. Each point on this production contract curve represents a specific allocation of inputs that, when plugged into the production functions, yields a point on the overall frontier.

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185. (A) P-3, Q-4, R-2, S-1
General equilibrium analysis uses several distinct conceptual tools. Walras' Law ensures the overall mathematical consistency of the market system. The Edgeworth Box provides a visual space for analyzing trade and allocation. The contract curve identifies all points where resources are distributed efficiently between parties. Finally, the Production Possibility Frontier maps these efficient production points into the maximum output combinations achievable by the economy, showing the fundamental trade-offs faced in production and identifying the limits of economic capacity.

186. (A) The Marginal Rate of Technical Substitution between any two inputs is equal for all firms.

Efficiency in production is achieved when it is impossible to increase the production of one good without decreasing the production of another. This requires that resources be allocated across industries so that the marginal rate of technical substitution between inputs, such as labor and capital, is the same for all firms. If the MRTS were different, firms could trade inputs to increase total output without using any more resources, indicating an inefficient and suboptimal initial resource allocation.

187. (D) $MRS_x y = MRT_x y$

For an economy to be completely Pareto efficient, it must satisfy three conditions: efficiency in exchange, efficiency in production, and efficiency in the product mix. The overall condition for product mix efficiency requires that the marginal rate of transformation in production must equal the marginal rate of substitution in consumption. This ensures that the rate at which the economy can technically trade one good for another matches the rate at which consumers are willing to trade them.

188. (B) Whether a set of prices exists that will clear all markets simultaneously.

The existence problem was a central challenge in early general equilibrium theory. It asks whether, given certain reasonable assumptions about consumer preferences and production technologies, there actually exists at least one set of prices at which the quantity demanded equals the quantity supplied in every single market. Without a formal proof of existence, the entire theory of general equilibrium would remain a purely hypothetical construct without a solid logical foundation for analyzing real and complex economic systems.

189. (C) Whether there is only one set of equilibrium prices.

Once the existence of a general equilibrium is established, the next logical question is whether that equilibrium is unique. The uniqueness question asks if there is only one specific set of prices that can clear all markets simultaneously, or if multiple different price configurations could achieve the same balance. This is important for economic predictability and stability; an economy with a unique equilibrium behaves more predictably than one where multiple potential price outcomes are possible under the same conditions.

190. (A) Both A and R are true and R is the correct explanation of A.

Any point on the contract curve in an Edgeworth Box is, by definition, Pareto efficient. This is because these points are formed by the tangency of individuals' indifference curves. At such a point, all mutually beneficial trades have already been exhausted. Consequently, any further movement to change the allocation would necessarily require moving to a lower indifference curve for at least one person, making them worse off. This perfectly illustrates the fundamental definition and requirements of Pareto optimality.

191. (A) Will return to equilibrium after a small shock or disturbance.

In economic theory, an equilibrium is considered stable if the market forces generated by a deviation from that equilibrium act to push the system back toward it. If an economy experiences a small shock, such as a temporary change in preferences or a minor supply disruption, a stable equilibrium ensures that prices and quantities will eventually settle back to their original balanced state. Stability is a crucial property for the practical relevance and reliability of any general equilibrium model used.

192. (B) Marginal Rate of Transformation (MRT).

The slope of the production possibility frontier at any specific point is called the marginal rate of transformation. It measures the amount of one good that must be given up to produce an additional unit of the other good, representing the opportunity cost of production. As the economy moves along the frontier, this slope typically increases, reflecting the law of increasing opportunity costs as resources are shifted between industries for which they are not perfectly suited.

193. (B) The effects of a change in one market on other markets are small and can be ignored.

Partial equilibrium analysis is a useful simplification when the specific market under

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study is relatively small or isolated. In such cases, the price and quantity changes within that market have negligible impacts on the rest of the economy, and the feedback from other markets is too minor to significantly alter the results. This allows economists to focus on the direct impact of policies or shocks on a single industry without the complexity of modeling the entire economic system.

194. (A) A hypothetical auctioneer adjusting prices to find a market-clearing equilibrium point.
Leon Walras introduced the concept of tâtonnement to explain how an economy might reach general equilibrium. He imagined a central auctioneer who announces prices and collects information on the resulting excess demands or supplies. The auctioneer then raises prices for goods with excess demand and lowers them for those with excess supply, repeating the process until all markets clear. This thought experiment provides a mechanism for understanding how prices might adjust to achieve a simultaneous balance across many markets.

195. (C) (i), (ii), and (iv)
General equilibrium analysis provides a powerful holistic view of the economy by assuming perfectly competitive markets where prices adjust to clear all sectors. It correctly identifies the slope of the production possibility frontier as the opportunity cost of changing the product mix. However, while the theory explains how resources are allocated and prices are set, the resulting equilibrium does not necessarily ensure that the final income distribution is equitable or fair according to specific social or moral standards.

196. (D) Are equal for all consumers.
Efficiency in exchange is the state where goods are distributed among individuals such that no one can be made better off without making someone else worse off. The necessary mathematical condition for this is that the marginal rates of substitution for any two goods must be identical for all consumers. If the MRS were different, there would be opportunities for mutually beneficial trade where individuals could swap goods to reach higher levels of satisfaction and improve their welfare.

197. (C) Potentially a Pareto improvement.
A point off the contract curve is Pareto inefficient, meaning it is possible to rearrange the goods to make at least one person better off without harming the other. Moving from such a point to a specific region on the contract curve is a Pareto improvement. However, not every move to the contract curve is an improvement; some points on the curve might make one person much better off while making the other person worse off than their initial state.

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198. (B) General equilibrium analysis.
The Heckscher-Ohlin model of international trade is a classic application of general equilibrium analysis. It uses a 2x2x2 framework to show how differences in factor endowments between two countries lead to differences in relative prices and patterns of trade. By considering how changes in trade policy affect production, consumption, and factor prices across all markets and both countries simultaneously, the model provides a comprehensive understanding of the global economic impacts of various types of international exchange.

199. (C) (i), (ii), and (iii)
There is a direct mapping between the contract curve in an Edgeworth Box and the utility possibility frontier; every efficient allocation on the curve represents a maximum utility combination on the frontier. Moving along these structures necessarily increases one person's utility at the expense of the other's. However, economic theory does not state that all points on the frontier are equally desirable socially. Choosing between these efficient allocations requires a social welfare function to incorporate ethical judgments about fairness.

200. (A) (i), (iii), and (iv)
A general competitive equilibrium is characterized by a set of prices that clear all markets and satisfy all Pareto efficiency conditions simultaneously. Walras' Law is an essential identity that governs the relationship between excess demands in the system. However, such an equilibrium does not guarantee social fairness or an equitable income distribution. Furthermore, while theoretical proofs exist for existence, real-world equilibria are not always guaranteed to be unique or stable depending on

the specific shapes of consumer demand and production supply.

201. (C) It is impossible to make someone better off without making someone else worse off.

Pareto optimality is the standard definition of economic efficiency used in welfare economics. It describes a state of resource allocation where all mutually beneficial changes have been exhausted. In this state, the only way to increase the well-being of any individual is to take resources away from someone else, thereby reducing their satisfaction. While it ensures that resources are not wasted, it says nothing about the fairness or equality of the resulting distribution among the members of society.

202. (A) The winners could fully compensate the losers and still be better off.

The Kaldor-Hicks criterion, also known as the potential Pareto improvement criterion, provides a way to evaluate policy changes that create both winners and losers. According to this rule, a change is considered a social improvement if the total gains to the winners are large enough that they could, in theory, pay off the losers and still remain better off than before. Importantly, the criterion does not require that the compensation actually be paid to the identified losers.

203. (D) Both (B) and (C).

The Pareto optimality criterion has significant limitations for public policy. Because it refuses to make interpersonal comparisons of utility, it cannot rank any two allocations where one person is better off and another is worse off, leaving most real-world decisions unaddressed. Furthermore, it focuses exclusively on efficiency; a situation where one person owns everything can be Pareto optimal as long as no one can be improved without harming that person, ignoring fundamental concerns about social equity and fairness.

204. (C) (i), (ii), (iii), and (iv)

Pareto optimality is indeed a weak criterion because of its inability to compare many social states. The Kaldor-Hicks criterion addresses this by focusing on potential compensation, which is also the basis for wealth maximization. The Scitovsky criterion was later developed to fix logical inconsistencies where the Kaldor-Hicks rule could approve both a move and its reversal. Crucially, the Kaldor-Hicks criterion is distinct because it only requires the possibility of compensation, not the actual payment to those who are harmed.

205. (C) Maximizes the total monetary value of society's resources, regardless of distribution.

The wealth maximization criterion, championed by Richard Posner, evaluates social welfare based on the total monetary value of all goods and services. It suggests that a policy is desirable if it increases the overall size of the economic pie, as measured by people's willingness and ability to pay. This approach is similar to the Kaldor-Hicks criterion but uses market values as a proxy for utility, focusing on aggregate economic value rather than the specific distribution among individuals in society.

206. (C) Statement I is true, but Statement II is false.

Every Pareto improvement is by definition a Kaldor-Hicks improvement because if everyone is better off, the winners can easily compensate the non-existent losers. However, the reverse is not true. A Kaldor-Hicks improvement often involves some people being made significantly worse off. It only qualifies as an improvement because the gains to the winners are large enough to potentially cover those losses, though the actual losers may never receive any compensation for their reduced well-being in the process.

207. (A) It ignores distributional consequences because the compensation is only potential, not actual.

The primary ethical criticism of the Kaldor-Hicks criterion is that it can justify policies that enrich the wealthy while harming the poor, provided the total gain is large enough. Since the compensation is only hypothetical and rarely paid in practice, the criterion can lead to socially undesirable outcomes where inequality increases. While it provides a clear way to measure aggregate economic progress, it fails to address the actual suffering or loss of well-being experienced by those negatively impacted.

208. (B) A move from A to B may be approved by Kaldor, while a move from B to A is also approved.

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Tibor Scitovsky identified a logical flaw in the Kaldor-Hicks criterion known as the reversal paradox. He showed that in certain cases, a move from state A to state B could be justified by the Kaldor criterion, but once at state B, a move back to state A could also be justified by the same criterion. To prevent this inconsistency, Scitovsky proposed a double criterion that requires both the Kaldor and Hicks tests to be satisfied for a change to be approved.

209. (A) 2, 1, 3

The development of welfare criteria reflects an evolving effort to evaluate social well-being. Vilfredo Pareto first established the foundational concept of Pareto optimality in the early 1900s. In the late 1930s, Nicholas Kaldor and John Hicks introduced their compensation criteria to move beyond the limitations of Pareto's strict rule. Shortly thereafter, Tibor Scitovsky pointed out the potential paradoxes in their work and introduced his double criterion. This sequence shows the increasing logical refinement of economic welfare assessments over time.

210. (A) Kaldor-Hicks Criterion

The Kaldor-Hicks criterion serves as the theoretical foundation for modern cost-benefit analysis. This practical application involves calculating the total monetary gains and total monetary losses associated with a project or policy. If the total benefits exceed the total costs, the project is considered to have a positive net impact on social welfare according to the criterion. This allows policymakers to compare diverse options by reducing their complex social impacts to a single aggregate monetary value for easier decision-making.

211. (C) A point on the Utility Possibility Frontier represents a Pareto-efficient allocation.

The utility possibility frontier maps out all the maximum utility combinations for individuals in an economy where resources are used efficiently. Therefore, every point on this frontier is, by definition, Pareto efficient, as no one's utility can be increased without decreasing another's. In contrast, Pareto efficiency does not guarantee equity, and the Kaldor criterion specifically requires that the winners be able to compensate the losers, not the other way around, to justify any social change.

212. (D) The Kaldor-Hicks Criterion.

In this scenario, the policy change creates a winner with a gain of Rs. 1000 and a loser with a loss of Rs. 500. This is not a Pareto improvement because someone is made worse off. However, since the total gain of Rs. 1000 is greater than the total loss of Rs. 500, the winner could theoretically compensate the loser and still have Rs. 500 left over. Therefore, the change satisfies the Kaldor-Hicks criterion for a potential social improvement.

213. (C) One allocation makes some people better off and others worse off.

The Pareto criterion is highly restrictive because it only allows for ranking when a change is a win-win situation. In most real-world policy decisions, some individuals gain while others lose. In these common cases, the Pareto criterion remains silent and cannot determine which state is socially better. This limitation is what drove economists to develop broader, albeit more controversial, measures like the Kaldor-Hicks compensation criteria and formal social welfare functions to guide economic policy.

214. (B) The losers cannot profitably bribe the winners to prevent the change.

The Hicks criterion, developed alongside the Kaldor criterion, approaches the problem of social improvement from the perspective of the losers. It states that a change from state A to state B is an improvement if the losers in state B cannot afford to pay the winners enough to persuade them to stay in state A. Together with the Kaldor criterion, it forms the basis for the compensation principle, though the two can sometimes provide conflicting results in specific cases.

215. (A) Both A and R are true and R is the correct explanation of A.

The wealth maximization criterion is often criticized on ethical grounds because it focuses entirely on the total value of society's resources while ignoring how those resources are distributed. Because it measures value by willingness to pay, it can favor the preferences of the wealthy over the basic needs of the poor. The reasoning is accurate because it identifies the criterion's core objective—maximizing the

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aggregate economic pie—as the reason why it can produce outcomes that are socially unjust.

216. (A) P-3, Q-2, R-4, S-1
Welfare economics is built on several key theorems and functions. The First Fundamental Theorem links competitive markets to Pareto efficiency. The Second Fundamental Theorem shows that equity and efficiency can be separated through redistribution. The Bergson-Samuelson social welfare function provides a way to rank social states based on individual utilities. Finally, Arrow's Impossibility Theorem highlights the fundamental logical difficulties in trying to create a consistent social preference order that satisfies basic democratic and rational conditions for society.

217. (C) Any competitive equilibrium leads to a Pareto efficient allocation of resources.
The First Fundamental Theorem of Welfare Economics is a core result that supports the case for free markets. It states that under certain ideal conditions—such as no externalities, perfect information, and perfect competition—the market mechanism will naturally lead to a Pareto efficient allocation of resources. This theorem provides a formal mathematical basis for Adam Smith's invisible hand concept, showing how individual pursuit of self-interest can result in a socially efficient outcome without central planning.

218. (A) The use of lump-sum taxes and transfers to achieve equitable outcomes without sacrificing efficiency.
The Second Fundamental Theorem of Welfare Economics is crucial for public policy because it suggests that an economy can achieve any desired Pareto efficient allocation through the market. If society finds the current market outcome unfair, the government can redistribute initial wealth using non-distortionary lump-sum transfers and then let the competitive market work. This implies that society can achieve both efficiency and its specific goals for equity by effectively separating the two issues through targeted redistribution.

219. (D) Relates social welfare to the level of individual utilities.
The Bergson-Samuelson social welfare function is a theoretical tool used to aggregate the well-being of all individuals in a society into a single measure of social welfare. It expresses social welfare as a function of the utility levels of every person. This framework allows economists to incorporate different ethical views on equity—such as utilitarianism or egalitarianism—into economic analysis, helping to determine which of the many Pareto efficient outcomes is the most socially desirable for the entire community.

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220. (B) It is impossible to aggregate individual preferences into a consistent social preference ordering that satisfies a specific set of reasonable conditions.
Kenneth Arrow's theorem is a groundbreaking result in social choice theory. It proves that no voting system or social welfare function can satisfy a set of seemingly modest and fair requirements simultaneously. This discovery revealed a fundamental tension between individual rationality and collective decision-making, showing that social preferences can often be inconsistent or arbitrary even when individuals have perfectly logical and consistent preferences. This has deep implications for the theoretical foundations of democratic governance and collective welfare.

221. (C) Cardinal Measurability of Utility.
Arrow's Impossibility Theorem is based on ordinal preferences, where individuals simply rank different social states. It does not require that utility be cardinally measurable or comparable between individuals. The theorem relies on other conditions: Unrestricted Domain, the Pareto Principle, Non-dictatorship, and the Independence of Irrelevant Alternatives. These conditions represent basic requirements for any fair and rational social choice mechanism, and Arrow's proof shows they cannot be satisfied together in a consistent way for all possible preference profiles.

222. (D) If one Pareto condition cannot be met, it is not necessarily desirable to satisfy the others.
The Theory of the Second Best has profound implications for economic policy. It states that if a market failure prevents even one efficiency condition from being met, attempting to fix other market failures to meet the remaining conditions

might actually decrease overall social welfare. In a second-best world, the optimal policy may involve introducing further distortions or departing from competitive pricing in multiple markets to achieve the best possible result, challenging the traditional advice of partial equilibrium efficiency.

223. (A) Both A and R are true and R is the correct explanation of A.

The First Fundamental Theorem of Welfare Economics provides the rigorous mathematical proof for Adam Smith's famous invisible hand metaphor. It demonstrates that when individuals act in their own self-interest to maximize their utility or profit, the resulting market equilibrium is Pareto efficient, meaning resources are allocated without waste. The reasoning correctly identifies this link, showing how private actions in a competitive environment translate into a globally optimal outcome for the entire economic system under ideal conditions.

224. (B) Maximizing the utility of the worst-off individual in society.

The Rawlsian social welfare function, inspired by philosopher John Rawls's maximin principle, adopts a highly egalitarian approach to social justice. It argues that the well-being of a society should be judged based solely on the utility of its least fortunate member. Under this view, an increase in the utility of a wealthy person does not improve social welfare unless it also improves the situation of the person at the bottom of the social hierarchy, emphasizing absolute fairness.

225. (B) The issues of efficiency and equity can be separated.

The most significant policy lesson from the Second Fundamental Theorem of Welfare Economics is the separation principle. It suggests that society does not have to sacrifice market efficiency to achieve a fair distribution of income. Instead of interfering with market prices, the government should focus on the direct redistribution of wealth. Once the initial endowments are fair, a competitive market will naturally lead to an outcome that is both efficient and socially acceptable according to those specific fairness goals.

226. (A) Depend only on the individual rankings of A and B.

The Independence of Irrelevant Alternatives is a key condition in Arrow's theorem. It requires that the collective social ranking of any two options, A and B, should be based exclusively on how individuals rank A relative to B. The presence or absence of a third option should not change the social preference between the first two. This ensures that the social choice process is focused and consistent, preventing strategic manipulation or arbitrary shifts in preference due to irrelevant options.

227. (C) Utilities of two individuals that result in the same level of social welfare.

A social indifference curve is a graphical representation of a social welfare function. It shows all the combinations of utility levels for different individuals that provide the same total level of well-being for society. Just as an individual indifference curve represents personal satisfaction, the social version reflects society's collective trade-offs between the well-being of its members. The shape of these curves depends on society's ethical preferences regarding the distribution and equality of utility among its citizens.

228. (D) Equitable initial distribution of endowments.

The First Fundamental Theorem of Welfare Economics only guarantees that a market equilibrium will be efficient, not that it will be fair. It relies on technical assumptions like perfect competition, perfect information, and the absence of externalities or public goods. However, the theorem holds regardless of the initial distribution of resources. Even if one person starts with almost everything and others with almost nothing, the final market outcome will still be Pareto efficient according to this specific mathematical theorem.

229. (C) Utilitarian (Benthamite) social welfare function.

A Utilitarian social welfare function, often associated with Jeremy Bentham, evaluates society's well-being based on the total sum of individual utilities. Under this framework, social welfare increases whenever the total utility of all members rises, regardless of how that utility is distributed. This approach implies that a gain for

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one person can perfectly offset an equivalent loss for another, focusing on aggregate satisfaction rather than the equality of outcomes among the different members of the society involved.

230. (A) (i), (ii), and (iv)

The First Welfare Theorem is strictly dependent on the absence of market failures, while the Second Theorem highlights the possibility of achieving any efficient outcome through redistribution. A Rawlsian approach correctly prioritizes the most disadvantaged person in the social hierarchy. However, Arrow's Theorem does the opposite of proving democratic perfection; it actually proves that no social choice mechanism can perfectly and consistently reflect individual preferences while satisfying a set of basic, fair requirements for decision-making.

231. (D) Varying the product mix along the production possibility frontier.

The grand utility possibility frontier is the ultimate boundary of all achievable utility combinations in an economy. It is constructed by taking every possible point on the production possibility frontier—representing different mixes of goods—and finding the utility outcomes associated with their efficient distribution among consumers. By considering all possible ways to both produce and distribute goods, the grand frontier represents the overall outer limit of welfare that an economy can potentially provide for its citizens.

232. (A) The highest possible social indifference curve is tangent to the grand utility possibility frontier.

The point of bliss represents the unique allocation of resources that results in the maximum possible level of social welfare. It is found graphically where society's highest attainable social indifference curve is tangent to the grand utility possibility frontier. At this point, the economy is not only producing and distributing goods efficiently but is also doing so in a way that perfectly aligns with its ethical preferences for equity and well-being for all members of the population.

233. (C) Market failures such as externalities, public goods, and imperfect competition.

The First Welfare Theorem's conclusion that markets are efficient only holds under very specific and restrictive conditions. In the real world, market failures frequently occur, preventing the achievement of Pareto optimality. Externalities, public goods, information asymmetries, and imperfect competition all distort market signals and lead to an inefficient allocation of resources. In these cases, the competitive equilibrium fails to maximize total social surplus, often providing a clear justification for government intervention to improve economic outcomes and welfare.

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234. (A) Non-distortionary lump-sum taxes and transfers.

For the Second Welfare Theorem to achieve its goal of separating equity from efficiency, the government must be able to redistribute wealth without changing people's incentives. This requires lump-sum taxes and transfers, which are fixed amounts that do not depend on an individual's behavior or income level. In practice, most taxes are distortionary, meaning they change economic decisions and create efficiency losses. This difficulty in implementing neutral redistribution is a major practical challenge for applying the theorem effectively.

235. (D) All of the above.

The concept of a social welfare function faces several deep theoretical and practical hurdles. It fundamentally requires the controversial ability to compare the utility of different people. Furthermore, Arrow's Impossibility Theorem shows that no such function can perfectly satisfy a set of fair criteria. Finally, there is no objective or universal consensus on the ethical principles—such as prioritizing total utility versus equality—that should define the function, making any chosen version a matter of subjective value judgment for society.

236. (B) One party to a transaction has more or better information than the other.

Asymmetric information is a type of market failure that occurs when there is an imbalance in the knowledge possessed by the parties involved in an economic exchange. Typically, either the buyer or the seller has private information about the quality of the good, the risks involved, or the actions being taken that the other party cannot easily observe. This imbalance can lead to inefficient outcomes, market distortions, and

in some extreme cases, the total collapse of the market.

237. (B) (i), (ii), and (iii)
These three scenarios perfectly illustrate different types of information imbalances. An insurance buyer knows more about their own health risks than the insurer, a situation known as adverse selection. A used car seller knows more about the vehicle's history and defects than the potential buyer. A worker can observe their own effort levels while the employer cannot, which leads to moral hazard. All these situations involve one party possessing private information that can be used to their advantage.

238. (D) Adverse Selection.
George Akerlof's Market for Lemons model is a classic demonstration of how adverse selection can damage a market. In the used car market, sellers know which cars are good and which are bad, but buyers cannot tell the difference. Because buyers fear getting a lemon, they only offer an average price. This low price drives owners of high-quality cars out of the market, leaving only lemons for sale. This process of bad goods driving out the good is a hallmark of adverse selection.

239. (A) One party's informed choices lead to a market where only low-quality goods are traded.
Adverse selection is a pre-contractual problem caused by hidden characteristics. It occurs when one party has private information about their own quality or risk level and uses it to decide whether to participate in a market. In insurance, for example, high-risk individuals are more likely to buy coverage, forcing companies to raise premiums. This, in turn, makes the insurance too expensive for low-risk people, leading to an adverse pool of participants and market inefficiency.

240. (B) After a transaction takes place, due to hidden actions.
Moral hazard is a post-contractual problem that arises when one party's behavior changes after an agreement is made because they no longer bear the full consequences of their actions. It is characterized by hidden actions that are difficult or impossible for the other party to monitor perfectly. Because the individual is protected by the contract, such as insurance or a guaranteed salary, they have less incentive to avoid risks or exert effort, leading to inefficient and costly outcomes.

241. (B) A person driving more recklessly after obtaining full-coverage car insurance.
This scenario is the quintessential example of moral hazard. Before having insurance, a driver bears the full financial cost of an accident and thus has a strong incentive to drive carefully. Once they have full-coverage insurance, the financial risk is transferred to the insurance company. This change in the person's economic environment reduces their incentive to be cautious, potentially leading to riskier behavior and a higher frequency of accidents than if they were uninsured and personally liable.

242. (A) The informed party to credibly reveal their private information.
Signalling is a strategy used by the party with private information to overcome the problem of asymmetric information. To be effective, the signal must be credible, meaning it must be more costly for a low-quality party to produce than for a high-quality party. By undertaking a costly action that a lower-quality counterpart would not find profitable to mimic, the informed individual can effectively prove their hidden characteristics or quality to the uninformed party in the transaction.

243. (C) A job candidate obtaining a master's degree to signal high ability.
In the labor market, employers often cannot directly observe a candidate's innate ability. Obtaining an advanced degree can serve as a signal of high ability, even if the degree itself doesn't directly increase job productivity. The signal works because high-ability individuals can generally complete a degree with less effort and at a lower cost than low-ability individuals. Therefore, a degree becomes a credible way for talented workers to distinguish themselves and command higher wages from employers.

244. (D) The uninformed party to induce the informed party to reveal their private information.
Screening is a mechanism used by the uninformed party to mitigate the problems of asymmetric information. Instead of waiting for

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a signal, the uninformed party offers a choice of contracts or sets up a process that encourages individuals to self-select and reveal their private information. By observing which option a person chooses, the uninformed party can infer their hidden characteristics or risks, allowing for more accurate pricing and better decision-making in the economic transaction.

245. (C) Screening.
Insurance companies use different combinations of premiums and deductibles to screen their customers. A policy with a low premium but a high deductible is attractive only to low-risk individuals who do not expect to file a claim. Conversely, high-risk individuals will prefer a policy with a higher premium and a lower deductible. By offering these choices, the insurer forces customers to reveal their private information about their own risk levels through their strategic choice of insurance plan.

246. (B) Moral hazard.
The principal-agent problem is a classic form of moral hazard that occurs in relationships where one person, the principal, hires another, the agent, to perform a task. Because the agent's interests are not perfectly aligned with the principal's and the principal cannot perfectly monitor the agent's actions, the agent may act in their own self-interest rather than for the benefit of the principal. This hidden action leads to inefficiencies and costs known as agency problems in the organization.

247. (D) Principal: Shareholders; Agent: CEO
In corporate governance, the shareholders are the principals who own the company and want to maximize the value of their investment. They hire the CEO as their agent to manage the firm's daily operations. The principal-agent problem arises because the CEO may have different goals, such as increasing their own compensation or job security, which might conflict with maximizing shareholder profits. Because shareholders cannot perfectly oversee every decision, they must design incentive structures to align the CEO's actions.

248. (A) Adverse selection, by signalling the high quality of the product.
Warranties serve as a powerful signal of product quality in markets with asymmetric information. A seller of a high-quality product can afford to offer a comprehensive warranty because the good is unlikely to break, making the cost of the signal low. A seller of a low-quality lemon cannot profitably offer the same warranty because they would incur high repair costs. Therefore, the presence of a strong warranty allows consumers to identify and trust high-quality products, helping to prevent market collapse.

249. (C) Mandating that everyone must purchase health insurance.
Adverse selection in health insurance occurs when only the sickest people buy coverage, causing prices to spiral upward. An individual mandate forces everyone, including young and healthy people, to participate in the insurance pool. By bringing in these low-risk individuals, the average risk of the insured group falls, allowing premiums to remain lower and more stable for everyone. This policy addresses the adverse nature of the participant pool and helps to ensure the continued viability of the insurance market.

250. (A) In principal-agent problems, agent actions are perfectly observable by the principal.
The core of the principal-agent problem is that the agent's actions are not perfectly observable by the principal. If the principal could easily monitor exactly what the agent was doing at all times, there would be no moral hazard. The agent would simply be forced to act in the principal's best interest. It is precisely the inability to monitor these hidden actions that creates the strategic opportunity for the agent to pursue their own goals over those of the principal.

251. (B) The rate at which a consumer is willing to substitute one good for another while keeping utility constant.
The Marginal Rate of Substitution measures how much of one good an individual is prepared to give up to obtain an additional unit of another good. This trade occurs while maintaining a constant level of overall satisfaction or utility. Graphically, it represents the slope of an indifference curve, reflecting personal

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preferences and subjective valuations between various product combinations.

252. (A) The slope of the indifference curve is equal to the slope of the budget line.
Maximizing satisfaction requires finding the highest attainable level of utility within specific financial limits. This occurs where the subjective valuation of goods aligns with the market price ratio. At this point, the indifference curve is tangent to the budget line, signifying that the consumer's internal willingness to substitute goods exactly matches the external exchange rate set by market prices.

253. (C) Ordinal utility, where preferences are ranked.
Modern economic analysis relies on the ranking of preferences rather than measuring satisfaction in precise numerical units. This approach allows for the construction of indifference curves where consumers compare bundles of goods to determine which they prefer or find equally satisfying. It represents a significant shift from earlier methods that attempted to quantify satisfaction as a cardinal, measurable value.

254. (D) Diminishing marginal utility
Foundational assumptions for preference relations include completeness, reflexivity, and transitivity. Completeness ensures all bundles can be compared, while reflexivity means a bundle is as good as itself. Transitivity provides logical consistency in choices across multiple options. While important in broader economic theory, diminishing marginal utility is a separate concept not explicitly listed as a basic preference relation property in the text.

255. (C) The market-determined rate of exchange between the two goods.
The budget line represents all possible combinations of two goods that a consumer can purchase using their entire income at current prices. Its slope reflects the relative cost of these goods, indicating how many units of one product must be sacrificed to acquire an additional unit of another. This value represents the objective market valuation of the goods.

256. (B) The short run, where at least one input is fixed.
Diminishing marginal returns occur when a variable input, such as labor, is added to at least one fixed factor, like land or machinery. This phenomenon is a defining characteristic of short-run production. As more units of the variable input are applied, the incremental increase in total output eventually begins to decline because the fixed factors become overcrowded or overutilized.

257. (D) The operation of the law of diminishing marginal returns.
Short-run cost curves typically decline initially as productivity increases due to specialization. However, once the law of diminishing marginal returns takes effect, each additional unit of variable input produces less output than the previous unit. This inefficiency causes marginal and average variable costs to rise, creating the characteristic U-shape observed in short-run cost analysis and determining firm production decisions.

258. (A) The lowest cost of producing any level of output when all inputs can be varied.
In the long run, firms have the flexibility to adjust all factors of production, including plant size and capital equipment. The long-run average cost curve serves as an envelope for all possible short-run curves, indicating the most efficient production method for every output level. It represents the minimum per-unit cost attainable when the firm can optimize its entire scale.

259. (C) Returns to scale.
The behavior of costs over a long period depends on how total output changes when all inputs are increased proportionally. Increasing returns to scale lead to falling average costs, constant returns maintain stable costs, and decreasing returns cause costs to rise. Consequently, the overall trajectory and curvature of the long-run average cost curve are fundamentally shaped by these scale economies.

260. (A) The maximum output achievable from a combination of inputs.
A production function establishes the technical relationship between various inputs, such as labor and capital, and the resulting quantity of goods produced. It defines the efficiency frontier

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by identifying the highest possible output level that can be generated using specific resource sets. This mathematical representation is crucial for understanding how firms transform physical factors into sellable products for the market.

261. (D) Perfect Competition

In perfectly competitive environments, numerous small firms operate alongside each other, selling identical products to well-informed buyers. Because no single participant is large enough to influence the market price, every firm must accept the prevailing price determined by aggregate supply and demand. This structure also features unrestricted entry and exit, ensuring long-run economic profits are driven down to zero.

262. (B) Firms selling differentiated products.

Monopolistic competition is characterized by many sellers offering products that are similar but not identical. This differentiation, achieved through branding, quality, or features, gives each firm a degree of control over its pricing. While the market shares characteristics with perfect competition, such as many participants and easy entry, the unique nature of each product creates limited market power.

263. (C) The price typically exceeds the marginal cost, leading to allocative inefficiency.

A monopoly exists as a single seller protected by high entry barriers, allowing it to function as a price maker. To maximize profits, the firm restricts output and sets a price higher than the cost of producing the last unit. This creates a gap between consumer valuation and production costs, resulting in a deadweight loss and sub-optimal resource allocation.

264. (D) Zero economic profit due to the free entry of new firms.

Although firms in monopolistically competitive markets can earn short-run profits through product differentiation, these gains attract new competitors. Since entry into the industry is relatively easy, the arrival of new firms shifts the demand curves of existing companies downward. Over time, prices fall and costs adjust until all firms earn only a normal profit, reaching a long-run equilibrium.

265. (A) Price is higher than marginal cost.

Perfectly competitive markets achieve efficiency because price equals marginal cost, ensuring the quantity produced aligns with consumer needs. In contrast, non-competitive structures like monopolies or oligopolies exercise market power to set prices above marginal costs. This disparity leads to lower production volumes than would be socially optimal, representing an inefficient use of resources and a reduction in welfare.

266. (B) General equilibrium considers the interdependence of all markets, while partial equilibrium analyzes one market in isolation.

While partial equilibrium analysis looks at supply and demand within a single industry assuming other factors remain constant, general equilibrium provides a broader perspective. It acknowledges that changes in one market, such as labor or energy, ripple through the entire economy, affecting other goods and services. This method tracks feedback loops and interactions between all sectors simultaneously for completeness.

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267. (B) Simultaneous equilibrium in all markets of the economy.

The goal of general equilibrium modeling is to identify a comprehensive set of prices that clears every market at once. This means the quantity demanded must equal the quantity supplied for all goods, services, and productive factors in the economy. Achieving this state demonstrates how individual decisions by millions of consumers and firms are coordinated through a unified price system.

268. (A) If all markets except one are in equilibrium, the last one must also be in equilibrium.

Walras's Law is a fundamental principle in general equilibrium theory derived from the aggregate budget constraint of the economy. It asserts that the total value of excess demand across all markets must sum to zero. Consequently, if stability and balance are achieved in all but one market, the final market must naturally be in balance to satisfy the overall economic identity.

269. (C) Understanding the impact of economy-wide policies.

General equilibrium analysis is indispensable for evaluating large-scale economic changes, such as major tax reforms or international trade agreements. These events affect multiple sectors and generate complex feedback effects that simpler models might miss. By accounting for the interconnections between markets, economists can better predict the final outcomes of policies that influence the entire national or global economic landscape.

270. (D) Léon Walras

Léon Walras is credited with the pioneering development of the framework for examining the economy as an integrated system of interrelated markets. His mathematical approach sought to prove that a set of prices exists where all markets reach equilibrium simultaneously. This work laid the foundation for modern macroeconomics and advanced microeconomic theories regarding resource allocation and the functionality of the price system.

271. (C) No individual can be made better off without making someone else worse off.

Pareto optimality describes a state of maximum economic efficiency where resources are allocated such that any further change would harm at least one person. In this condition, all gains from trade have been exhausted. It serves as a benchmark for efficiency because it identifies situations where no waste exists and no simple improvements can be made without creating conflict.

272. (B) Allows for a policy change even if there are losers, provided they can be potentially compensated.

The Kaldor-Hicks criterion offers a more flexible approach than the strict Pareto requirement. It suggests that a policy change is beneficial if the total gains to winners are large enough to cover the total losses to others. This potential for compensation, regardless of whether it actually occurs, allows for the evaluation of policies that produce both winners and losers in society.

273. (D) Only the Kaldor-Hicks criterion

A policy causing any individual to suffer a loss fails the Pareto criterion, which requires that no one be harmed. However, if the aggregate benefits outweigh the aggregate costs, the policy satisfies the Kaldor-Hicks standard. This criterion focuses on the net increase in social welfare and the possibility of compensation, making it a common tool in practical cost-benefit analysis.

274. (A) Their impact on maximizing the total monetary value of societal wealth.

Wealth maximization prioritizes the aggregate monetary value of resources within a society. Under this efficiency lens, the preferred policy is the one that generates the highest total economic value, irrespective of how that wealth is distributed among individuals. It simplifies policy evaluation by focusing on objective monetary metrics and overall economic growth rather than subjective utility or distributional fairness.

275. (C) It cannot evaluate policies that create any losers, even if the overall gains are large.

The Pareto criterion is often deemed too restrictive because most real-world economic policies inevitably disadvantage some groups while benefiting others. Since the criterion requires unanimous improvement or at least no harm to anyone, it often leads to a stalemate where many potentially beneficial reforms are rejected. This limitation necessitates the use of broader standards like the Kaldor-Hicks efficiency test.

276. (A) Any competitive market equilibrium leads to a Pareto-optimal outcome.

The First Fundamental Theorem of Welfare Economics establishes that a perfectly competitive market will naturally reach an efficient allocation of resources. Under ideal conditions without externalities, the self-interested actions of individuals and firms lead to a state where no one can be improved without harming others. This provides a theoretical basis for the efficiency of the invisible hand mechanism.

277. (D) Implementing an appropriate initial redistribution of endowments.

The Second Fundamental Theorem demonstrates that efficiency and equity can be addressed separately. It proves that any Pareto-optimal distribution preferred by society can be achieved through the market mechanism

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if initial resources are redistributed first. By using lump-sum transfers to adjust starting points, society can reach a fair outcome without sacrificing the efficiency benefits of a competitive market system.

278. (B) Rank different Pareto-optimal outcomes based on societal preferences for distribution.

A Social Welfare Function acts as a mathematical representation of society's collective values regarding the distribution of utility. While Pareto efficiency identifies many possible optimal states, it does not specify which is most desirable. The social welfare function allows policymakers to rank these different efficient outcomes based on criteria like fairness, helping to select the best possible state for society.

279. (C) Individual self-interested behavior in competitive markets can lead to a socially efficient outcome.

This theorem suggests that when individuals act to maximize their own utility and firms maximize their profits within a competitive framework, the market coordinates these actions toward an efficient result. Much like the invisible hand described by Adam Smith, the price system guides resources to their most valued uses without the need for central planning or direct government intervention.

280. (D) The market can achieve efficiency, but society must choose the desired distributional outcome.

The two Fundamental Theorems of Welfare Economics clarify the distinct roles of market mechanisms and social policy. Competitive markets are excellent tools for reaching the Pareto frontier and ensuring efficiency. However, the market cannot determine which specific point on that frontier is the most equitable. That choice remains a matter for society to decide through its collective preferences and values.

281. (A) Asymmetric information between transacting parties

Economic inefficiencies often arise when one party in a transaction possesses superior information compared to the other. This imbalance, known as asymmetric information, distorts market signals and can prevent mutually beneficial trades from occurring. Both adverse selection and moral hazard are direct consequences of this lack of transparency, leading to market failures in sectors like insurance, finance, and used goods.

282. (B) Hidden characteristics before a transaction occurs.

Adverse selection is a pre-contractual problem where one party has private information about their own quality or attributes. Because the uninformed party cannot distinguish between high-quality and low-quality options, they may offer a price that attracts only the low-quality participants. This information gap occurs before the deal is finalized, potentially causing the market for superior goods or services to collapse.

283. (B) Adverse Selection

When an insurance company offers coverage, individuals with higher health risks are more motivated to purchase it than healthy individuals. If the insurer cannot accurately assess these individual risks beforehand, they must set premiums based on average health. This leads to a situation where the insured pool becomes disproportionately sick, which is a classic demonstration of the adverse selection problem.

284. (A) An individual's behavior changes after a transaction because they are insulated from risk.

Moral hazard describes a post-contractual change in behavior that occurs because the costs of risky actions are borne by another party. Once a person is insured or protected from the negative consequences of their choices, they may take more risks than they otherwise would. This hidden action happens because the observer cannot perfectly monitor or control the other party's behavior.

285. (C) Moral Hazard

The inability of the bank to monitor the manager's effort creates a situation where the manager might underperform without facing direct consequences. This is a post-contractual issue involving hidden actions. Because the manager is somewhat insulated from the impact of their low effort while the bank bears the risk, this scenario perfectly illustrates the economic concept of moral hazard in employment.

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286. (D) The expected utility derived from the outcome.

Decision-making under uncertainty involves evaluating different possible outcomes and their respective probabilities. Rather than focusing solely on the average monetary gain, individuals consider the satisfaction or utility they would receive from each outcome. By calculating the weighted average of these utilities, agents choose the option that maximizes their expected utility, reflecting their personal preferences and risk attitudes.

287. (C) Risk-averse behavior

Risk aversion is characterized by a preference for a guaranteed outcome over a gamble that has the same expected monetary value. In this case, the gamble offers an average of one hundred, yet the individual chooses the certain amount instead. This behavior indicates that the individual values the security of the certain payment more than the potential but uncertain higher payoff of the gamble.

288. (B) A risk-averse individual has a concave utility function of wealth.

A concave utility function indicates that each additional unit of wealth provides less incremental satisfaction than the previous unit, a concept known as diminishing marginal utility. For a risk-averse person, the loss of utility from losing a certain amount of money is greater than the gain in utility from winning that same amount. This mathematical property explains their preference for certainty.

289. (D) An increasing marginal utility of wealth.

Risk-loving individuals have a convex utility function, meaning that the more wealth they acquire, the more satisfaction they derive from each additional unit. Because they experience increasing marginal utility, the potential gain from a gamble provides significantly more utility than the potential loss takes away. This leads them to prefer uncertain prospects over certain outcomes with the same expected monetary value.

290. (A) Risk-neutral

Risk neutrality occurs when an individual's utility function is linear, meaning their marginal utility of wealth remains constant regardless of their total wealth. Such a person is concerned only with the expected monetary value of a situation. They see no difference between a certain payment and a gamble with an identical average outcome, as both options provide the same level of utility.

291. (C) Strategic interaction among rational agents.

Game theory provides a formal mathematical framework for analyzing situations where the best choice for one person depends on the actions of others. It focuses on strategic interdependence, where participants must anticipate the moves of their rivals to maximize their own payoffs. This is particularly relevant in markets with few firms, where every decision impacts the competitive landscape and others' responses.

292. (A) Players make decisions independently and cannot form binding agreements.

Non-cooperative game theory examines scenarios where individuals act in their own self-interest without the ability to coordinate through enforceable contracts. Even if players could communicate, they lack the mechanism to guarantee that everyone will follow a specific plan. The focus is on finding stable outcomes where each participant's choice is a logical response to the independent choices of all other players.

293. (D) Market regulations

The basic framework of any game consists of three essential elements: the players involved, the set of possible strategies available to each player, and the payoffs resulting from every combination of those strategies. These components define the rules and outcomes of strategic interactions. While market regulations may influence the environment, they are not considered a fundamental internal component of the game structure itself.

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294. (B) No player has an incentive to unilaterally deviate from their chosen strategy.

A Nash Equilibrium represents a stable state of strategic balance. It occurs when every participant has chosen a strategy that is their best possible response to the strategies selected by everyone else. Because no player can improve their situation by changing only their own

move, the equilibrium is self-enforcing. It serves as a primary solution concept for predicting behavior in complex interactions.

295. (C) A best response to the strategies of the other players.

In a Nash Equilibrium, each player's strategy is optimized based on the current choices of their opponents. This means that, given what everyone else is doing, no other available strategy would provide a higher payoff for that individual. This mutual best-response relationship ensures that the outcome of the game is consistent with the rational, self-interested behavior of all participating agents.

296. (D) The prices of factors of production like labor and capital.

Factor pricing theory explores how the market determines the compensation for various productive resources. These resources include labor, which receives wages; capital, which earns interest; and land, which generates rent. Understanding these prices is essential for explaining how national income is distributed among households and how firms decide on the mix of inputs required to produce goods and services.

297. (A) Is derived from the demand for the goods it helps to produce.

The demand for factors of production is not direct because consumers do not typically want labor or raw capital for personal consumption. Instead, firms demand these inputs because they are necessary to create the final products that consumers actually want. Therefore, the level of demand for any factor depends entirely on the market demand for the final goods that the factor helps create.

298. (B) The factor's price is less than or equal to its Marginal Revenue Product.

A rational firm will continue to hire additional units of a factor as long as the extra revenue generated by that unit exceeds its cost. The Marginal Revenue Product represents the added value brought by the last unit of input. Profit maximization is achieved when the firm hires exactly up to the point where the factor's price matches the revenue it contributes to the firm.

299. (B) The marginal physical product of the factor multiplied by the marginal revenue.

Marginal Revenue Product is a measure of the monetary contribution of an additional unit of a variable input. It is calculated by taking the extra output produced by that unit, known as the marginal physical product, and multiplying it by the marginal revenue received from selling that output. This metric guides firms in determining the optimal amount of each resource to employ.

300. (A) Value of Marginal Product (VMP).

In a perfectly competitive output market, the marginal revenue a firm receives for selling an extra unit is equal to the market price. Consequently, the Marginal Revenue Product of a factor becomes identical to its Value of Marginal Product, which is the marginal physical product multiplied by the price. In equilibrium, the factor's price will settle at this level in competitive markets.

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CHAPTER 02
Macro Economics

1. Which of the following best defines Gross National Product (GNP)?
(A) The total market value of all final goods and services produced within the specific domestic territory of a country during a financial year.
(B) The market value of final goods and services produced by a country's normal residents in a year, irrespective of geographic location.
(C) The total factor income earned by the normal residents of a country in a year after making necessary deductions for depreciation.
(D) The total income available to households for consumption and saving after the payment of all direct personal taxes to the government.

2. Which statement correctly describes the relationship between Gross Domestic Product (GDP) and Net National Product (NNP)?
(A) NNP at market price is GDP at market price minus depreciation plus Net Factor Income from Abroad.
(B) NNP at market price is GDP at market price plus depreciation plus Net Factor Income from Abroad.
(C) NNP at market price is GDP at market price minus depreciation minus Net Factor Income from Abroad.
(D) NNP at market price is GDP at factor cost minus depreciation plus Net Factor Income from Abroad.

3. Given below are two statements:
Statement I : The income method of measuring national income sums up all forms of factor incomes like rent, wages, interest, and profit.
Statement II : The expenditure method of measuring national income sums up consumption, investment, government spending, and net exports.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

4. Match the National Income Concepts in List I with their Descriptions in List II:
List I: (National Income Concept)
P. GDP at Factor Cost
Q. Personal Income
R. Disposable Income
S. NNP at Market Price
List II: (Description)
1. Income actually received by individuals and households before direct taxes.
2. Market value of final goods and services produced by normal residents, less depreciation.
3. Personal Income minus direct personal taxes and miscellaneous fees.
4. GDP at Market Price minus Net Indirect Taxes.
Codes:
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-1, R-4, S-3

5. In the context of national income accounting, what does 'Net Factor Income from Abroad' (NFIA) represent?
(A) The net difference between the total value of exports and the total value of imports of a country.
(B) The sum of factor income received from the rest of the world and factor income paid to other countries.
(C) The difference between factor income received from the rest of the world and factor income paid to it.
(D) The net difference between indirect taxes collected by the state and subsidies provided to the producers.

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6. If a country's GDP is 500 billion, its Net Factor Income from Abroad is -20 billion, and depreciation is 50 billion, what is its Net National Product (NNP) at market price?
(A) 570 billion
(B) 430 billion
(C) 530 billion
(D) 470 billion

7. All of the following are included in the calculation of national income using the income method ExCEPT:
(A) Wages and salaries
(B) Undistributed corporate profits
(C) Rent and interest
(D) Transfer payments

8. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : According to the Classical theory, the economy always operates at the level of full employment.
Reason (R) : The Classical model assumes perfect flexibility of wages, prices, and interest rates, which automatically adjusts any deviation from full employment.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

9. Which of the following is the most appropriate description of 'Say's Law of Markets'?
(A) Demand creates its own supply.
(B) Money supply determines the price level.
(C) Supply creates its own demand.
(D) Investment is determined by the rate of interest.

10. Which of the following statements about the Keynesian approach to output and employment determination is incorrect?
(A) Wage and price flexibility ensures a rapid return to full employment.
(B) Aggregate demand is the primary determinant of the equilibrium level of output.
(C) The economy can be in equilibrium at less than full employment.
(D) The principle of effective demand explains the level of employment.

11. Why does an increase in aggregate demand in the Keynesian model lead to an increase in output and employment when there are unemployed resources?
(A) Because wages and prices are viewed as being perfectly flexible in a downward direction during periods of recession.
(B) Because interest rates are expected to automatically fall to stimulate private investment through increased borrowing.
(C) Because the supply of money is perfectly elastic at the given interest rate, allowing for greater transactional liquidity.
(D) Because prices and wages are assumed to be sticky, especially in the downward direction, preventing market clearing.

12. Consider the following statements regarding the Classical theory of employment:
(a) It assumes the existence of perfect competition in both product and factor markets.
(b) It is based on the assumption of wage-price rigidity.
(c) It adheres to Say's Law of Markets.
(d) It argues that government intervention is necessary to achieve full employment.
Which of the above statement(s) is/are correct?
(A) (a) and (c) only
(B) (b) and (d) only
(C) (a), (b), and (c) only
(D) (a), (c), and (d) only

13. In Keynesian economics, 'effective demand' is the point where:
(A) The total savings equals total population.
(B) The labor supply curve intersects the labor demand curve.
(C) Aggregate supply function intersects the aggregate demand function.
(D) The money supply equals the money demand.

14. Given below are two statements:

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Statement I : The Absolute Income Hypothesis states that consumption is a function of current disposable income.

Statement II : The Permanent Income Hypothesis argues that consumption depends on a household's expected long-term average income.

In the light of the above statements, choose the correct option.

(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

15. If the consumption function is given by $C = 100 + 0.75Y$, where Y is the disposable income, what is the value of savings when income is 1000?
(A) 150
(B) 250
(C) 850
(D) 100

16. Arrange the following theories of consumption in the chronological order of their appearance:
1. Permanent Income Hypothesis
2. Absolute Income Hypothesis
3. Life-Cycle Hypothesis
4. Relative Income Hypothesis

Choose the correct sequence from the options below:
(A) 2, 4, 3, 1
(B) 1, 2, 4, 3
(C) 2, 3, 1, 4
(D) 4, 2, 1, 3

17. According to Keynes' Psychological Law of Consumption, as income increases:
(A) Consumption increases by exactly the same amount.
(B) Consumption increases, but by a smaller amount than the increase in income.
(C) Consumption remains constant, and all extra income is saved.
(D) Consumption decreases as people tend to save more.

18. The 'demonstration effect', where a household's consumption is influenced by the consumption of its neighbors or peers, is a central feature of which consumption theory?
(A) Relative Income Hypothesis
(B) Absolute Income Hypothesis
(C) Life-Cycle Hypothesis
(D) Permanent Income Hypothesis

19. Identify the correctly matched pair.
(A) Absolute Income Hypothesis - Milton Friedman
(B) Relative Income Hypothesis - John Maynard Keynes
(C) Life-Cycle Hypothesis - Franco Modigliani
(D) Permanent Income Hypothesis - James Duesenberry

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20. Consider the following statements related to the investment function:
(a) Autonomous investment is independent of the level of income.
(b) Induced investment is positively related to the level of income.
(c) The Marginal Efficiency of Capital (MEC) is the expected rate of return from an additional unit of capital.
(d) An increase in the market rate of interest, ceteris paribus, makes more investment projects profitable.
(e) Public works spending is an example of induced investment.

Which of the above statement(s) is/are correct?
(A) (a), (b), and (c) only
(B) (a), (c), and (d) only
(C) (b), (d), and (e) only
(D) (c), (d), and (e) only

21. What is the Marginal Efficiency of Capital (MEC)?
(A) The specific rate of interest at which the total market demand for capital assets becomes zero.
(B) The ratio of a specific change in investment to the resulting change in total national income.
(C) The expected rate of profit generated from the use of an additional unit of a capital asset.
(D) The total cost of borrowing financial funds required to finance a specific investment project.

22. A firm will undertake an investment project if the:
(A) Marginal Efficiency of Capital is less than

the market rate of interest.
(B) Marginal Efficiency of Capital is greater than or equal to the market rate of interest.
(C) Accelerator is greater than the multiplier.
(D) Market rate of interest is zero.

23. Which of the following is an incorrect statement regarding the determinants of investment?
(A) Higher expected future profits tend to increase investment.
(B) Technological advancements can stimulate new investment.
(C) A higher corporate tax rate generally discourages investment.
(D) An increase in the level of national income has no effect on induced investment.

24. Match the Concepts in List I with their Associated Economist/Theory in List II:
List I: (Concept)
P. Investment Multiplier
Q. Accelerator Principle
R. Super-multiplier
S. MEC
List II: (Associated Economist/Theory)
1. J. R. Hicks
2. J. M. Keynes
3. J. M. Clark
4. R. F. Kahn
Codes:
(A) P-2, Q-3, R-1, S-2
(B) P-4, Q-3, R-1, S-2
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-4, R-1, S-3

25. If the Marginal Propensity to Consume (MPC) is 0.8, what is the value of the simple investment multiplier?
(A) 4
(B) 1.25
(C) 5
(D) 0.2

26. The accelerator theory of investment relates the level of net investment to the:
(A) Change in the level of output or income.
(B) Level of income.
(C) Rate of interest.
(D) Value of the multiplier.

27. Given below are two statements:
Statement I : The multiplier effect describes how an initial change in spending leads to a larger final change in national income.
Statement II : The value of the multiplier is inversely related to the Marginal Propensity to Save (MPS).
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

28. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : The interaction between the multiplier and the accelerator can generate cyclical fluctuations in the economy.
Reason (R) : An initial increase in autonomous investment, through the multiplier, raises income, which in turn, through the accelerator, induces further investment, creating a cumulative process.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

29. The concept of the 'super-multiplier' arises from the interaction of:
(A) The investment multiplier and the foreign trade multiplier.
(B) Autonomous investment and induced investment.
(C) The multiplier and the accelerator.
(D) The consumption function and the savings function.

30. In the Quantity Theory of Money, as given by Fisher's equation MV = PT, what does 'V' represent?
(A) The value of transactions.
(B) The volume of money supply.
(C) The general price level.
(D) The velocity of circulation of money.

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31. All of the following are motives for holding money according to Keynes's Liquidity Preference Theory ExCEPT:
(A) The investment motive.
(B) The transactions motive.
(C) The precautionary motive.
(D) The speculative motive.

32. Consider the following statements about the demand for money:
(a) The Cambridge 'k' represents the fraction of money income that people desire to hold in cash.
(b) In the Baumol-Tobin model, the transactions demand for money is positively related to income and negatively related to the interest rate.
(c) Keynes argued that the speculative demand for money is a function of the level of income.
(d) The classical quantity theory assumes the velocity of money is relatively stable.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (d) only
(B) (a), (c), and (d) only
(C) (b) and (c) only
(D) (a) and (d) only

33. According to Keynes, the speculative demand for money is a function of:
(A) The level of income.
(B) The rate of interest.
(C) The general price level.
(D) The volume of transactions.

34. In Tobin's portfolio approach to the demand for money, individuals make a choice between holding money and holding:
(A) Bonds.
(B) Physical capital.
(C) Consumer goods.
(D) Foreign currency.

35. The concept of a liquidity trap in Keynesian theory implies that at a very low rate of interest, the demand for money becomes:
(A) Perfectly inelastic.
(B) Unitary elastic.
(C) Perfectly elastic.
(D) Negatively sloped.

36. Which of the following best describes 'High-Powered Money' (H)?
(A) The total currency held by the public and commercial banks.
(B) Currency with the public plus demand deposits with commercial banks.
(C) The total assets of the central bank.
(D) Currency held by the public plus cash reserves of commercial banks.

37. The money multiplier is defined as the ratio of:
(A) High-powered money to the money supply.
(B) The currency-deposit ratio to the reserve-deposit ratio.
(C) The money supply to high-powered money.
(D) Demand deposits to the total money supply.

38. Given below are two statements:
Statement I : An increase in the Cash Reserve Ratio (CRR) by the central bank will lead to an increase in the money supply.
Statement II : The money multiplier is positively related to the currency-deposit ratio held by the public.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are false.
(B) Both Statement I and Statement II are true.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

39. In the context of money supply measures in India, what does M1 consist of?
(A) M1 + Savings deposits with Post Office saving banks.
(B) M1 + Net time deposits of the banking system.
(C) M3 + All deposits with post office savings banks.
(D) Currency with the public + Net demand deposits of the banking system + 'Other' deposits with the RBI.

40. An open market purchase of securities by the central bank will:
(A) Increase the reserves of commercial banks and increase the money supply.
(B) Decrease the reserves of commercial banks and decrease the money supply.
(C) Decrease the reserves of commercial banks and increase the money supply.

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(D) Increase the reserves of commercial banks and decrease the money supply.

41. Which of the following would lead to a decrease in the money multiplier?
(A) A decrease in the required reserve ratio.
(B) An open market purchase by the central bank.
(C) An increase in the public's desire to hold currency relative to deposits.
(D) A decrease in the discount rate.

42. What does the IS curve in the IS-LM model represent?
(A) The combinations of interest rate and income that bring equilibrium in the goods market.
(B) The combinations of interest rate and income that bring equilibrium in the money market.
(C) The relationship between the price level and aggregate demand.
(D) The relationship between inflation and unemployment.

43. Which of the following will cause the IS curve to shift to the right?
(A) An increase in taxes.
(B) A decrease in government spending.
(C) A decrease in the money supply.
(D) An increase in autonomous investment.

44. Match the Policy Actions in List I with their Effects on the IS-LM Model in List II:
List I: (Policy Action)
P. Increase in money supply
Q. Increase in government spending
R. Increase in taxes
S. Decrease in autonomous investment
List II: (Effect on IS-LM Model)
1. IS curve shifts left
2. LM curve shifts right
3. IS curve shifts right
4. LM curve shifts left
Codes:
(A) P-2, Q-3, R-1, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-2, Q-1, R-3, S-4
(D) P-3, Q-2, R-4, S-1

45. The LM curve is upward sloping because:
(A) A higher interest rate encourages more investment, which leads to a higher level of income.
(B) A higher level of income increases savings, which lowers the interest rate.
(C) A higher income increases money demand, requiring a higher interest rate for equilibrium given a fixed money supply.
(D) A higher interest rate reduces the demand for money, which requires a lower income for money market equilibrium.

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46. In the IS-LM model, what is the effect of an expansionary fiscal policy (e.g., increased government spending)?
(A) The LM curve shifts to the right, leading to higher income and a lower interest rate.
(B) The LM curve shifts to the left, leading to lower income and a higher interest rate.
(C) The IS curve shifts to the left, leading to lower income and a lower interest rate.
(D) The IS curve shifts to the right, leading to higher income and a higher interest rate.

47. The crowding-out effect refers to the phenomenon where:
(A) Increased government spending leads to a decrease in private investment.
(B) Increased money supply leads to a decrease in the interest rate.
(C) Increased taxes lead to a decrease in consumption.
(D) Increased imports lead to a decrease in domestic production.

48. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : In the liquidity trap range of the LM curve, fiscal policy is highly effective in increasing income.
Reason (R) : In the liquidity trap, the LM curve is horizontal, and an expansionary fiscal policy does not raise the interest rate, thus causing no crowding out of private investment.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct

explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

49. Under what condition is monetary policy completely ineffective in changing the level of income in the IS-LM framework?
(A) When the LM curve is vertical (Classical range).
(B) When the LM curve is upward sloping.
(C) When the IS curve is vertical.
(D) When the IS curve is downward sloping.

50. Demand-pull inflation is typically caused by:
(A) An excess of aggregate demand over aggregate supply at the full employment level.
(B) An increase in the costs of production, such as wages or raw materials.
(C) A decrease in aggregate supply.
(D) A fall in the velocity of circulation of money.

51. Given below are two statements:
Statement I : Cost-push inflation is caused by factors that increase the per-unit cost of production.
Statement II : An increase in aggregate demand beyond the full employment level of output leads to an inflationary gap.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

52. The original Phillips Curve depicts a stable, inverse relationship between:
(A) The rate of inflation and the level of government spending.
(B) The rate of wage inflation and the rate of unemployment.
(C) The rate of unemployment and the rate of economic growth.
(D) The rate of interest and the rate of inflation.

53. Which of the following are potential causes of cost-push inflation?
(a) Increase in wage rates beyond productivity growth.
(b) Increase in profit margins by firms.
(c) Increase in indirect taxes by the government.
(d) Increase in government expenditure on infrastructure.
Which of the above statement(s) is/are correct?
(A) (a) and (d) only
(B) (a), (b), and (c) only
(C) (b), (c), and (d) only
(D) (a), (b), (c), and (d)

54. The long-run Phillips curve is vertical at the Non-Accelerating Inflation Rate of Unemployment (NAIRU), implying that:
(A) There is always a trade-off between inflation and unemployment in the long run.
(B) Any rate of inflation is consistent with the natural rate of unemployment in the long run.
(C) The economy can only achieve zero inflation at the natural rate of unemployment.
(D) Monetary policy can permanently reduce unemployment below the natural rate.

55. The phenomenon of 'stagflation' refers to a situation of:
(A) High inflation and high economic growth.
(B) Low inflation and high unemployment.
(C) High inflation and high unemployment (stagnant growth).
(D) Deflation and economic recession.

56. The concept of NAIRU (Non-Accelerating Inflation Rate of Unemployment) is also known as the:
(A) Frictional rate of unemployment.
(B) Natural rate of unemployment.
(C) Cyclical rate of unemployment.
(D) Structural rate of unemployment.

57. Arrange the following phases of a typical business cycle in their correct sequence, starting from the lowest point:
1. Peak
2. Expansion (Recovery)
3. Trough (Depression)
4. Contraction (Recession)
Choose the correct sequence from the options below:
(A) 3, 2, 1, 4
(B) 2, 1, 4, 3
(C) 3, 4, 1, 2
(D) 1, 4, 3, 2

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58. Which of the following is NOT a characteristic feature of the recession phase of a business cycle?
(A) Falling levels of output and employment.
(B) Rising levels of inventory.
(C) Declining profits and business confidence.
(D) Increasing inflationary pressures.

59. Schumpeter's theory of business cycles attributes the primary cause of economic fluctuations to:
(A) The multiplier-accelerator interaction.
(B) Psychological waves of optimism and pessimism.
(C) Innovations introduced by entrepreneurs.
(D) Variations in the money supply.

60. Consider the following characteristics of a business cycle's expansion phase:
(a) Rising employment and output.
(b) Increasing consumer and business confidence.
(c) Falling stock prices.
(d) Rising interest rates.
(e) Decreasing levels of investment.
Which of the above statement(s) is/are correct descriptions of the expansion phase?
(A) (a), (b), and (d) only
(B) (a), (b), and (e) only
(C) (c), (d), and (e) only
(D) (a), (c), and (d) only

61. In the context of business cycle theories, who developed a model based on the interaction of the multiplier and the accelerator?
(A) Joseph Schumpeter
(B) Paul Samuelson
(C) John Maynard Keynes
(D) Nicholas Kaldor

62. What is the primary objective of a contractionary monetary policy?
(A) To stimulate economic growth and reduce unemployment.
(B) To control inflation by reducing aggregate demand.
(C) To increase the money supply and lower interest rates.
(D) To finance the government's budget deficit.

63. Which of the following is a quantitative instrument of monetary policy?
(A) Moral suasion.
(B) Bank Rate.
(C) Margin requirements.
(D) Consumer credit regulation.

64. Match the Policy Instruments in List I with their Types of Policy in List II:
List I: (Policy Instrument)
P. Open Market Operations
Q. Public Expenditure
R. Margin Requirements
S. Taxation
List II: (Type of Policy)
1. Fiscal Policy
2. Qualitative Monetary Policy
3. Quantitative Monetary Policy
Codes:
(A) P-3, Q-1, R-2, S-1
(B) P-1, Q-3, R-2, S-1
(C) P-3, Q-1, R-1, S-2
(D) P-2, Q-1, R-3, S-1

65. An increase in the Cash Reserve Ratio (CRR) is an example of:
(A) Expansionary fiscal policy.
(B) Expansionary monetary policy.
(C) Contractionary monetary policy.
(D) Contractionary fiscal policy.

66. Which of the following is an instrument of fiscal policy?
(A) Bank rate
(B) Public debt
(C) Open market operations
(D) Statutory Liquidity Ratio (SLR)

67. 'Automatic stabilizers' in fiscal policy refer to features of the tax and transfer system that:
(A) Require active government intervention to be effective.
(B) Always lead to a balanced budget.
(C) Are designed to control the money supply.
(D) Automatically reduce the fluctuations in the business cycle without any discretionary government action.

68. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : The Rational Expectations Hypothesis (REH) suggests that anticipated

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monetary or fiscal policies are ineffective in changing real output and employment.
Reason (R) : According to REH, rational economic agents use all available information to forecast future economic variables, and they adjust their behavior in a way that neutralizes the effects of predictable policy changes.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

69. The 'policy ineffectiveness proposition' is a key conclusion of which school of thought?
(A) Keynesian economics
(B) Classical economics
(C) Rational Expectations Hypothesis
(D) Monetarism

70. How does the adaptive expectations hypothesis differ from the rational expectations hypothesis?
(A) Adaptive expectations assume people only use past information to form expectations, while rational expectations assume they use all available information.
(B) Adaptive expectations assume people use all available information, while rational expectations assume they only use past information.
(C) Adaptive expectations are always correct, while rational expectations can be systematically wrong.
(D) There is no difference; the terms are interchangeable.

71. The Lucas critique, a powerful critique of traditional macroeconomic policy evaluation, argues that:
(A) Macroeconomic models are inherently unstable and cannot be used for policy analysis.
(B) Fiscal policy is always more effective than monetary policy.
(C) Economic agents are irrational and do not respond to policy changes.
(D) The parameters of econometric models may change in response to policy changes, making policy evaluation based on historical data unreliable.

72. According to the Rational Expectations Hypothesis:
(a) Economic agents make systematic and predictable errors in their forecasts.
(b) Unanticipated policy changes can have real effects on output and employment in the short run.
(c) Anticipated policy changes have no real effects, only nominal effects on the price level.
(d) People form their expectations based solely on past trends.
Which of the above statement(s) is/are correct?
(A) (a) and (d) only
(B) (b) and (c) only
(C) (a), (b), and (c) only
(D) (b), (c), and (d) only

73. The concept of double counting in national income measurement refers to:
(A) Including transfer payments in the calculation of GDP.
(B) Counting the income of both the earner and the spender.
(C) Counting the value of intermediate goods along with the value of final goods.
(D) Including the value of second-hand goods sold during the year.

74. Which method of measuring national income is also known as the 'value-added method'?
(A) Income method
(B) Expenditure method
(C) Consumption method
(D) Product method

75. Given below are two statements:
Statement I : In the classical model, the interest rate is determined by the equilibrium between the demand for and supply of money.
Statement II : In the classical model, the interest rate is determined by the equilibrium between savings and investment.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.

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(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

76. The slope of the Keynesian consumption function represents the:
(A) Average Propensity to Consume (APC).
(B) Marginal Propensity to Save (MPS).
(C) Marginal Propensity to Consume (MPC).
(D) Average Propensity to Save (APS).

77. According to the Life-Cycle Hypothesis, an individual's consumption over their lifetime is primarily determined by:
(A) Their expected lifetime resources, including wealth and income.
(B) Their current annual income.
(C) The income of their peer group.
(D) The prevailing rate of interest.

78. Which of the following is an example of autonomous investment?
(A) A firm builds a new factory in response to rising consumer demand.
(B) A business increases its inventory as sales grow.
(C) A company replaces worn-out machinery to maintain current output levels.
(D) The government builds a new highway as part of a public works program.

79. If the Marginal Propensity to Save (MPS) is 0.25, and there is a 100 crore increase in autonomous investment, what will be the total increase in income?
(A) 25 crores
(B) 125 crores
(C) 400 crores
(D) 75 crores

80. Match the Theories in List I with their Key Concepts in List II:
List I: (Theory)
P. Permanent Income Hypothesis
Q. Baumol's Inventory Theory
R. Phillips Curve
S. Say's Law
List II: (Key Concept)
1. Trade-off between inflation and unemployment.
2. Supply creates its own demand.
3. Transitory and permanent components of income.
4. Square root formula for money demand.
Codes:
(A) P-3, Q-4, R-1, S-2
(B) P-3, Q-2, R-4, S-1
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-4, R-2, S-3

81. The Cambridge version of the Quantity Theory of Money is expressed as:
(A) $MV = PT$
(B) $C = a + bY$
(C) $M = kPY$
(D) $I = S$

82. Which measure of the money supply is often referred to as 'broad money'?
(A) M3
(B) M1
(C) M2
(D) M0 (Reserve Money)

83. A point to the right of the LM curve indicates:
(A) Equilibrium in the money market.
(B) Equilibrium in the goods market.
(C) Excess demand for money.
(D) Excess supply of money.

84. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : Crowding out is more significant when the LM curve is steeper.
Reason (R) : A steep LM curve implies that a small increase in income causes a large increase in money demand, which requires a substantial rise in the interest rate to restore money market equilibrium, thereby crowding out more private investment.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

85. Which type of policy is most effective in combating cost-push inflation?

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(A) Expansionary monetary policy to increase demand.
(B) Contractionary fiscal policy to reduce spending.
(C) Supply-side policies to reduce costs and increase productivity.
(D) Policies to fix the exchange rate.

86. The concept that expectations-augmented Phillips Curve becomes vertical in the long run was popularized by:
(A) Milton Friedman
(B) John Maynard Keynes
(C) A. W. Phillips
(D) James Tobin

87. The lowest point of a business cycle is referred to as the:
(A) Peak
(B) Recession
(C) Recovery
(D) Trough

88. Which of the following are objectives of monetary policy in an economy?
(a) To maintain price stability.
(b) To ensure an adequate flow of credit to productive sectors.
(c) To promote economic growth.
(d) To manage the government's tax collection.
(e) To maintain stability in the foreign exchange market.
Which of the above statement(s) is/are correct?
(A) (a), (b), (c), and (d) only
(B) (a), (b), (c), and (e) only
(C) (a), (c), and (d) only
(D) (b), (c), and (d) only

89. Under the Rational Expectations Hypothesis, why are anticipated policies ineffective?
(A) Because the government always makes policy errors.
(B) Because people anticipate the effects of the policy and adjust their behavior, thus offsetting the intended impact on real variables.
(C) Because policy implementation lags are too long.
(D) Because the money supply is always constant.

90. National Income at factor cost is equal to:
(A) Net National Product at market price minus net indirect taxes.
(B) Gross National Product at market price minus depreciation.
(C) Net Domestic Product at factor cost plus net factor income from abroad.
(D) Both (A) and (C) are correct.

91. Which of the following is an incorrect pair?
(A) Keynesian Theory - Involuntary unemployment
(B) Say's Law - Demand creates its own supply
(C) Classical Theory - Full employment
(D) Effective Demand - Intersection of AD and AS

92. The relationship between Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC) in the Keynesian short-run consumption function is that:
(A) APC is always equal to MPC.
(B) APC is always greater than MPC.
(C) APC is always less than MPC.
(D) APC is initially greater than MPC but eventually becomes less than MPC.

93. The 'ratchet effect' is associated with which theory of consumption?
(A) Absolute Income Hypothesis
(B) Permanent Income Hypothesis
(C) Relative Income Hypothesis
(D) Life-Cycle Hypothesis

94. The Marginal Efficiency of Capital (MEC) schedule is expected to shift to the right if:
(a) The cost of capital goods falls.
(b) Businesses become more optimistic about future profits.
(c) Corporate taxes are increased.
(d) New technology is developed that increases the productivity of capital.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (d) only
(B) (a), (c), and (d) only
(C) (b) and (d) only
(D) (a) and (c) only

95. The concept of the Foreign Trade Multiplier shows the impact of a change in _____ on national income.

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(A) Domestic investment
(B) Government spending
(C) Net exports
(D) Money supply

96. A 'liquidity trap' situation occurs when:
(A) The speculative demand for money is zero.
(B) The public is willing to hold any amount of money at a given low interest rate.
(C) The interest rate is very high.
(D) Monetary policy is highly effective.

97. The supply of money in an economy is primarily determined by the:
(A) Central bank and the commercial banking system.
(B) Government's finance ministry.
(C) Demand for money from the public.
(D) Level of national income.

98. A point to the left of the IS curve indicates:
(A) An excess demand for goods ($I > S$).
(B) An excess supply of goods ($I < S$).
(C) Equilibrium in the goods market ($I = S$).
(D) An excess demand for money.

99. An expansionary monetary policy in the IS-LM model involves:
(A) A rightward shift in the IS curve.
(B) A leftward shift in the IS curve.
(C) A rightward shift in the LM curve.
(D) A leftward shift in the LM curve.

100. In the long run, according to the expectations-augmented Phillips Curve, an attempt to keep unemployment below the natural rate will result in:
(A) Accelerating inflation.
(B) A stable, higher rate of inflation.
(C) A lower rate of inflation.
(D) A permanent reduction in unemployment.

101. The 'recovery' phase of a business cycle is characterized by:
(A) A fall in output, income, and employment.
(B) The economy reaching its maximum growth rate.
(C) Persistently high unemployment and stagnant demand.
(D) A rise in output, income, and employment from the trough.

102. Which of the following is NOT a fiscal policy tool?
(A) Changing the reserve requirements of banks.
(B) Changing government expenditure.
(C) Changing tax rates.
(D) Managing public debt.

103. The Rational Expectations Hypothesis implies that errors in forecasting are:
(A) Systematic and predictable.
(B) Always biased in one direction.
(C) Random and not predictable.
(D) Based only on past mistakes.

104. Which of the following is considered a transfer payment and thus excluded from GDP?
(A) The salary of a government school teacher.
(B) A pension paid to a retired military officer.
(C) The profit of a publicly-owned company.
(D) The wage of a construction worker building a public road.

105. In the classical theory, what ensures that Say's Law holds true in a money economy?
(A) The flexibility of the interest rate which equates savings and investment.
(B) The flexibility of wages and prices.
(C) Government intervention to manage aggregate demand.
(D) The constancy of the velocity of money.

106. Given below are two statements:
Statement I : The sum of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) is always equal to 1.
Statement II : The sum of Average Propensity to Consume (APC) and Average Propensity to Save (APS) is always greater than 1.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

107. Match the Consumption Theories in List I with their Key Proponents in List II:
List I: (Consumption Theory)
P. Absolute Income Hypothesis
Q. Relative Income Hypothesis

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R. Permanent Income Hypothesis
S. Life-Cycle Hypothesis
List II: (Key Proponent)
1. Milton Friedman
2. Franco Modigliani
3. J. M. Keynes
4. James Duesenberry
Codes:
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-2, R-1, S-3

108. The accelerator coefficient is the ratio of:
(A) Induced investment to a change in consumption.
(B) Induced investment to a change in income.
(C) A change in income to a change in investment.
(D) Autonomous investment to the level of income.

109. Baumol's inventory-theoretic approach to the transactions demand for money implies that money demand is:
(A) A function of income only.
(B) A function of the interest rate only.
(C) A function of both income and the interest rate.
(D) Independent of both income and the interest rate.

110. Which of the following actions by a central bank constitutes an 'Open Market Sale'?
(A) Selling government securities to commercial banks and the public.
(B) Buying government securities from commercial banks.
(C) Lowering the statutory liquidity ratio.
(D) Providing loans to commercial banks at a concessional rate.

111. The intersection of the IS and LM curves represents:
(A) A situation of full employment.
(B) Equilibrium in the goods market but disequilibrium in the money market.
(C) Equilibrium in the money market but disequilibrium in the goods market.
(D) Simultaneous equilibrium in the goods market and the money market.

112. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : A sharp increase in oil prices can lead to stagflation.
Reason (R) : An increase in oil prices is an adverse supply shock that shifts the aggregate supply curve to the left, causing a higher price level (inflation) and lower output (stagnation).
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

113. Hicks' theory of the business cycle is based on:
(A) Purely monetary factors.
(B) The process of creative destruction through innovation.
(C) The interaction of the multiplier and a non-linear accelerator.
(D) Exogenous shocks to the economy like wars and droughts.

114. A government budget deficit is most likely to be inflationary if it is financed by:
(A) Borrowing from the public.
(B) Increasing taxes.
(C) Borrowing from abroad.
(D) Borrowing from the central bank (printing new money).

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115. A key critique of the Rational Expectations Hypothesis is that:
(A) It assumes economic agents have too much information and are too sophisticated in their processing of it.
(B) It suggests that policy is always effective.
(C) It relies on adaptive expectations.
(D) It ignores the role of money in the economy.

116. Which of the following items are part of the challenges in measuring national income?
(a) The problem of double counting.
(b) Non-marketed services like those of a homemaker.
(c) The existence of an underground or black

economy.
(d) Inadequate and unreliable data.
(e) Inclusion of the value of leisure.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (c) only
(B) (a), (c), (d), and (e) only
(C) (a), (b), (c), and (d) only
(D) (b), (c), (d), and (e) only

117. The classical dichotomy refers to the idea that:
(A) Real and nominal variables are determined separately in the classical model.
(B) The economy is divided into a goods sector and a money sector.
(C) There is a distinction between saving and investment.
(D) Employment is determined in the labor market while output is determined in the goods market.

118. In Keynesian theory, involuntary unemployment is due to:
(A) A lack of skills among the workforce.
(B) The refusal of workers to accept lower wages.
(C) A deficiency of aggregate demand.
(D) Frictions in the labor market.

119. If the consumption function is $C = 50 + 0.8Yd$, then the corresponding savings function is:
(A) $S = 50 + 0.2Yd$
(B) $S = -50 + 0.2Yd$
(C) $S = -50 + 0.8Yd$
(D) $S = 50 - 0.2Yd$

120. Arrange the following concepts in the chronological order of their development:
1. Super-multiplier
2. Investment Multiplier
3. Accelerator Principle
4. Employment Multiplier
Choose the correct sequence from the options below:
(A) 4, 2, 3, 1
(B) 2, 4, 3, 1
(C) 3, 4, 2, 1
(D) 2, 3, 4, 1

121. The transactions demand for money, according to Keynes, is primarily a function of:
(A) The rate of interest.
(B) The level of income.
(C) The bond prices.
(D) The capital-output ratio.

122. If the central bank lowers the Statutory Liquidity Ratio (SLR), the:
(A) Lending capacity of commercial banks increases.
(B) Lending capacity of commercial banks decreases.
(C) Money supply in the economy decreases.
(D) Demand for loans from the public decreases.

123. The IS curve has a negative slope because:
(A) A higher income leads to higher savings, which requires a higher interest rate for I=S.
(B) A lower interest rate stimulates investment, which leads to a higher equilibrium level of income.
(C) A higher income increases money demand, leading to a higher interest rate.
(D) A lower interest rate reduces the supply of money, leading to a lower income.

124. The 'inflationary gap' is the amount by which:
(A) Actual aggregate demand exceeds the aggregate supply at the full employment level of income.
(B) Actual aggregate supply exceeds the aggregate demand at the full employment level of income.
(C) Government spending exceeds tax revenue.
(D) Imports exceed exports.

125. Which of the following is NOT a feature of the peak of a business cycle?
(A) The rate of economic growth is at its highest.
(B) Unemployment is at its lowest level.
(C) The economy is operating at or close to full capacity.
(D) There are widespread expectations of a downturn.

126. An example of a qualitative credit control measure of a central bank is:
(A) Open Market Operations.
(B) Moral Suasion.
(C) Bank Rate Policy.
(D) Cash Reserve Ratio.

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127. Which concept is central to the 'Lucas Critique'?
(A) Adaptive expectations.
(B) Animal spirits.
(C) Rational expectations.
(D) The money multiplier.

128. What is 'Green GNP'?
(A) GNP measured at constant prices.
(B) GNP adjusted for the depreciation of natural capital and environmental degradation.
(C) The total value of agricultural output in an economy.
(D) The part of GNP that comes from environmentally friendly industries.

129. In the classical model, a perfectly vertical aggregate supply curve at the full employment level implies that:
(A) An increase in aggregate demand will only increase the price level, not output.
(B) An increase in aggregate demand will only increase output, not the price level.
(C) The economy is in a deep recession.
(D) Wages are rigid downwards.

130. The Permanent Income Hypothesis was proposed to explain the observation that:
(A) The short-run MPC is less than the long-run MPC.
(B) The MPC is constant across all income levels.
(C) Consumption is not related to income.
(D) The APC is constant in the short run.

131. Induced investment is likely to increase when:
(a) The rate of growth of national income accelerates.
(b) The market rate of interest falls significantly.
(c) Businesses expect a recession in the near future.
(d) The government offers tax incentives for new investments.
Which of the above statement(s) is/are correct?
(A) (a) and (b) only
(B) (a), (b), and (d) only
(C) (c) and (d) only
(D) (a) and (d) only

132. If a closed economy has a MPC of 0.75, an increase in government spending by \$100 million will lead to a total increase in income of:
(A) 75 million
(B) 133.33 million
(C) 400 million
(D) 100 million

133. Tobin's portfolio balance approach differs from Keynes's speculative demand for money because Tobin argues that:
(A) Individuals hold either all money or all bonds.
(B) Individuals hold a diversified portfolio of both money and bonds.
(C) The demand for money is completely interest-inelastic.
(D) People hold money only for transaction purposes.

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134. Which of the following correctly represents the relationship in the money multiplier formula? (where M=Money Supply, H=High-Powered Money, cr=currency-deposit ratio, rr=reserve-deposit ratio)
(A) $M = H \cdot \frac{1+cr}{cr+rr}$
(B) $M = H \cdot \frac{cr+rr}{1+cr}$
(C) $H = M \cdot \frac{1+cr}{cr+rr}$
(D) $M = H \cdot \frac{1+rr}{cr+rr}$

135. In the IS-LM model, what is the effect of a contractionary monetary policy (e.g., decreased money supply)?
(A) The IS curve shifts left, income and interest rate fall.
(B) The LM curve shifts right, income rises and interest rate falls.
(C) The LM curve shifts left, income falls and interest rate rises.
(D) The IS curve shifts right, income and interest rate rise.

136. Match the Terms in List I with their Descriptions in List II:
List I: (Term)
P. Stagflation
Q. NAIRU
R. Deflationary Gap
S. Phillips Curve
List II: (Description)
1. Inverse relationship between wage inflation

and unemployment.
2. Unemployment rate at which inflation does not accelerate.
3. High inflation combined with high unemployment.
4. Excess of aggregate supply over aggregate demand at full employment.

Codes:
(A) P-3, Q-2, R-4, S-1
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-2, Q-3, R-4, S-1

137. Which theory of business cycles emphasizes the role of psychological factors, or 'waves of optimism and pessimism'?
(A) Schumpeter's innovation theory.
(B) Hicks' theory of the trade cycle.
(C) Keynesian theory.
(D) Pigou's psychological theory.

138. The policy of deficit financing, where a government covers its budget gap, is an instrument of:
(A) Monetary Policy
(B) Fiscal Policy
(C) Trade Policy
(D) Exchange Rate Policy

139. The 'policy ineffectiveness proposition' of the Rational Expectations school applies primarily to:
(A) All government policies.
(B) Only fiscal policies.
(C) Only monetary policies.
(D) Systematic and anticipated policies.

140. Personal Disposable Income is calculated as:
(A) Personal Income - Direct Personal Taxes.
(B) National Income - Corporate Taxes - Undistributed Profits.
(C) Personal Income + Transfer Payments.
(D) Private Income - Corporate Savings Tax.

141. The assumption of wage-price flexibility is central to the:
(A) Classical model of employment.
(B) Keynesian model of employment.
(C) IS-LM model.
(D) Phillips Curve analysis.

142. Given below are two statements:
Statement I : According to the Relative Income Hypothesis, an individual's consumption is influenced by their position in the income distribution.
Statement II : The hypothesis suggests that it is easier for households to reduce consumption when income falls than to increase it when income rises.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

143. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : The investment demand curve is downward sloping.
Reason (R) : A lower rate of interest makes more investment projects profitable, as the present value of their expected future returns exceeds their cost.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

144. The working of the accelerator principle depends on the assumption that:
(A) There is excess capacity in the consumer goods industries.
(B) There is no excess capacity in the capital goods industries.
(C) The capital-output ratio is variable.
(D) Firms are pessimistic about future demand.

145. In the Baumol-Tobin model of cash management, the 'brokerage fee' represents:
(A) The cost of converting interest-bearing assets into cash.
(B) The interest foregone by holding cash.
(C) The inflation tax on holding money.
(D) The salary of the bank manager.

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146. Which of the following is NOT a component of the M3 measure of money supply?
(A) Currency with the public.
(B) Demand deposits with the banking system.
(C) Net time deposits with the banking system.
(D) Deposits with post office savings banks.

147. A flatter IS curve implies that:
(A) Fiscal policy is more effective.
(B) A small change in the interest rate has a large effect on investment and hence on income.
(C) Investment is not very sensitive to the interest rate.
(D) Both (A) and (B) are correct.

148. Which of the following factors can cause a rightward shift in the long-run Phillips Curve (i.e., an increase in the natural rate of unemployment)?
(a) An increase in the minimum wage.
(b) A decrease in the power of labor unions.
(c) Improved information about job vacancies.
(d) An increase in unemployment benefits.
(e) More effective job training programs.
Which of the above statement(s) is/are correct?
(A) (a) and (d) only
(B) (b), (c), and (e) only
(C) (a), (d), and (e) only
(D) (a), (b), and (c) only

149. The 'turning points' of a business cycle, i.e., the peak and the trough, are explained in Hicks' model by:
(A) The full employment ceiling and the autonomous investment floor.
(B) Exogenous shocks.
(C) Government policy interventions.
(D) Changes in the money supply.

150. A key objective of fiscal policy is the redistribution of income and wealth. This is primarily achieved through:
(A) Open market operations and bank rate policy.
(B) A progressive tax structure and targeted public expenditure.
(C) Maintaining a fixed exchange rate.
(D) Controlling the cash reserve ratio.

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151. According to the rational expectations critique, why might activist stabilization policy be undesirable?
(A) It can increase the volatility of output if policymakers have less information than private agents or make mistakes.
(B) It is always ineffective.
(C) It leads to hyperinflation.
(D) It only affects real variables, not nominal ones.

152. To move from GDP at market prices to GDP at factor cost, one must:
(A) Add net indirect taxes.
(B) Subtract net indirect taxes.
(C) Add depreciation.
(D) Subtract depreciation.

153. Keynes attributed the stickiness of wages in the downward direction to:
(A) Money illusion on the part of workers.
(B) Government regulations.
(C) The power of corporations.
(D) The law of diminishing returns.

154. Which of the following is true for the Keynesian consumption function?
(A) APC falls as income rises.
(B) MPC falls as income rises.
(C) APC is constant.
(D) MPC is greater than 1.

155. Consider the following statements about investment:
(a) Autonomous investment is determined by factors 'outside' the model, like technology.
(b) Induced investment is a function of the rate of change of income.
(c) The MEI (Marginal Efficiency of Investment) schedule is steeper than the MEC schedule.
(d) An increase in the population growth rate would likely shift the MEC curve to the left.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (c) only
(B) (b), (c), and (d) only
(C) (a) and (c) only
(D) (a) and (d) only

156. The operation of the investment multiplier assumes a:

(A) Classical full employment economy.
(B) Keynesian underemployment economy.
(C) State of hyperinflation.
(D) Balanced government budget.

157. The 'precautionary motive' for holding money arises because:
(A) People want to make a profit from speculating on future interest rate movements.
(B) There is a gap between the receipt of income and its expenditure.
(C) People want to have a buffer to meet unforeseen contingencies.
(D) The central bank requires them to hold a certain amount of cash.

158. If the required reserve ratio is 20% and the currency-deposit ratio is 0, what is the value of the simple money multiplier?
(A) 4
(B) 5
(C) 10
(D) 20

159. In the IS-LM framework, the classical range of the LM curve is:
(A) Horizontal.
(B) Downward sloping.
(C) Upward sloping.
(D) Vertical.

160. Arrange the following events/concepts in macroeconomic thought in their correct historical order:
1. Keynes's General Theory and the principle of effective demand.
2. The Policy Ineffectiveness Proposition of the Rational Expectations school.
3. The emergence of the expectations-augmented Phillips Curve.
4. Say's Law of Markets.

Choose the correct sequence from the options below:
(A) 4, 1, 3, 2
(B) 1, 4, 3, 2
(C) 4, 3, 1, 2
(D) 1, 3, 2, 4

161. Which of the following is an example of an automatic stabilizer?
(A) A discretionary increase in government infrastructure spending during a recession.
(B) A reduction in the cash reserve ratio by the central bank.
(C) Progressive income taxes that naturally yield more revenue as incomes rise.
(D) A legislated one-time tax rebate to all households.

162. Automatic stabilizers, such as unemployment benefits and progressive income taxes, work by:
(A) Increasing the government budget deficit during recessions and increasing the surplus during booms.
(B) Increasing the government budget surplus during recessions and increasing the deficit during booms.
(C) Keeping the government budget balanced throughout the business cycle.
(D) Increasing the effectiveness of discretionary fiscal policy.

163. The core idea of the Rational Expectations Hypothesis is that people's expectations:
(A) Are always correct.
(B) Are formed by extrapolating from past trends.
(C) Are the same as the predictions of the relevant economic theory.
(D) Are consistently biased.

164. GDP Deflator is a ratio of:
(A) Nominal GDP to Real GDP.
(B) Real GDP to Nominal GDP.
(C) Real GNP to Nominal GNP.
(D) Nominal GNP to Real GNP.

165. According to the classical view, if the quantity of money is doubled, what will happen?
(A) The price level will double and real output will remain unchanged.
(B) Real output will double and the price level will remain unchanged.
(C) Both the price level and real output will double.
(D) The price level will be halved and real output will double.

166. The concept of 'transitory income' is a key element in which consumption theory?
(A) Absolute Income Hypothesis
(B) Relative Income Hypothesis

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(C) Life-Cycle Hypothesis
(D) Permanent Income Hypothesis

167. Match the Concepts in List I with their Implications in List II:
List I: (Concept)
P. Crowding Out
Q. Liquidity Trap
R. Policy Ineffectiveness
S. Ratchet Effect
List II: (Implication)
1. Consumption does not fall in proportion to a fall in income.
2. Fiscal expansion raises interest rates, reducing private investment.
3. Anticipated policy has no real effect on output.
4. Monetary policy is ineffective as money demand is perfectly elastic.
Codes:
(A) P-1, Q-3, R-4, S-2
(B) P-2, Q-4, R-3, S-1
(C) P-2, Q-1, R-3, S-4
(D) P-3, Q-4, R-2, S-1

168. The 'leakages' from the circular flow of income, which reduce the size of the multiplier, include:
(A) Savings, taxes, and imports.
(B) Investment, government spending, and exports.
(C) Consumption, savings, and investment.
(D) Taxes, subsidies, and transfer payments.

169. What is the fundamental difference between Keynes's and the Classical's view on the demand for money?
(A) Keynes included the speculative motive dependent on the interest rate.
(B) Keynes believed money was only held for transactions.
(C) The Classicals believed money demand was a function of wealth.
(D) The Classicals ignored the transactions demand for money.

170. Which of the following is NOT a function of a central bank?
(A) Acting as a lender of last resort.
(B) Accepting deposits from the general public.
(C) Controlling the supply of money.
(D) Acting as a banker to the government.

171. A tax cut would cause the IS curve to _____ and a decrease in money supply would cause the LM curve to _____.
(A) shift right; shift left
(B) shift right; shift right
(C) shift left; shift right
(D) shift left; shift left

172. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : The original short-run Phillips curve relationship broke down in the 1970s.
Reason (R) : The 1970s witnessed large adverse supply shocks (e.g., oil price hikes) that created stagflation, a phenomenon the original Phillips curve could not explain.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

173. The duration of a business cycle is:
(A) Always fixed at ten years.
(B) Varies in length and intensity.
(C) Always less than one year.
(D) Perfectly predictable.

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174. Which of the following represents an expansionary fiscal policy?
(A) An increase in the bank rate.
(B) A decrease in government spending and an increase in taxes.
(C) An increase in government spending and a decrease in taxes.
(D) The sale of government securities in the open market.

175. The proposition that people's expectations about policy will alter the way policy works is known as:
(A) The policy ineffectiveness proposition.
(B) The Lucas Critique.
(C) Goodhart's Law.
(D) The law of unintended consequences.

176. Which of the following would be added to national income to arrive at personal income?
(a) Undistributed corporate profits.
(b) Corporate income taxes.
(c) Social security contributions.
(d) Government transfer payments.
(e) Net interest payments by households.
Which of the above statement(s) is/are correct?
(A) (a) and (b) only
(B) (d) and (e) only
(C) (a), (b), and (c) only
(D) (c), (d), and (e) only

177. In the simple Keynesian model of a closed economy without government, equilibrium is achieved when:
(A) $Y = C + I$
(B) $S = I$
(C) Aggregate Demand = Aggregate Supply
(D) All of the above

178. According to the Life-Cycle Hypothesis, dissaving is most likely to occur for an individual during:
(A) Middle age.
(B) Early working years.
(C) Retirement.
(D) Peak earning years.

179. The distinction between Marginal Efficiency of Capital (MEC) and Marginal Efficiency of Investment (MEI) is that:
(A) MEC relates to a change in the entire capital stock, while MEI relates to the rate of investment.
(B) MEC is a stock concept, while MEI is a flow concept.
(C) The MEI curve is steeper than the MEC curve because the price of capital goods rises as investment increases.
(D) All of the above are correct.

180. The accelerator model of investment is most often criticized because:
(A) It assumes a fixed capital-output ratio.
(B) It ignores the role of expectations.
(C) It assumes the existence of excess capacity in capital goods industries.
(D) It cannot explain net investment, only replacement investment.

181. Fisher's Equation of Exchange (MV=PT) is an identity that becomes a theory when:
(A) M and T are assumed to be constant.
(B) V and P are assumed to be constant.
(C) V and T are assumed to be constant or determined exogenously.
(D) M and P are assumed to be constant.

182. 'Near money' refers to:
(A) Assets which are not money but can be converted into money with little delay or loss of value.
(B) Damaged currency notes and coins.
(C) The cash reserves of commercial banks.
(D) The total currency in circulation.

183. If investment becomes completely interest-inelastic, the IS curve will be:
(A) Vertical.
(B) Horizontal.
(C) Upward sloping.
(D) Perfectly elastic.

184. In an IS-LM model, if the government increases its spending and the central bank wants to hold the interest rate constant, it must:
(A) Decrease the money supply.
(B) Increase the money supply.
(C) Increase taxes.
(D) Sell government bonds.

185. A rightward shift of the short-run Phillips curve suggests that:
(A) For any given level of inflation, the rate of unemployment is now higher.
(B) The trade-off between inflation and unemployment has improved.
(C) The natural rate of unemployment has decreased.
(D) The economy is experiencing deflation.

186. The concept of creative destruction is central to which business cycle theory?
(A) Keynes's theory
(B) Hicks's theory
(C) Schumpeter's theory
(D) Samuelson's theory

187. The time lag between the recognition of an economic problem and the implementation of a policy to address it is known as the:

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(A) Recognition lag.
(B) Action lag or implementation lag.
(C) Effect lag.
(D) Data lag.

188. The critique of the Rational Expectations Hypothesis includes the argument that:
(a) Information is costly and not equally available to all agents.
(b) People may not be rational or may use simple rules of thumb.
(c) Long-term contracts (like wage contracts) can prevent immediate adjustment to new information.
(d) Government has superior information to private agents.
Which of the above statement(s) is/are correct?
(A) (a) and (b) only
(B) (a), (b), and (c) only
(C) (c) and (d) only
(D) (a), (b), (c), and (d)

189. Which of the following activities is excluded from GDP measurement to avoid double counting?
(A) The sale of a newly manufactured car to a consumer.
(B) The sale of flour to a bakery.
(C) The salary paid to a police officer.
(D) The commission earned by a real estate agent.

190. The concept of involuntary unemployment is a central feature of which economic framework?
(A) Classical economics
(B) New Classical economics
(C) Keynesian economics
(D) Monetarism

191. Given below are two statements:
Statement I : The Relative Income Hypothesis suggests consumption is irreversible over time, known as the ratchet effect.
Statement II : The Permanent Income Hypothesis posits that people spend based on their long-term income expectations, not short-term fluctuations.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

192. Match the Business Cycle Theorists in List I with the Primary Causes of Cycle in List II:
List I: (Business Cycle Theorist)
P. Schumpeter
Q. Keynes
R. Hicks
S. Samuelson
List II: (Primary Cause of Cycle)
1. Multiplier-Accelerator Interaction with floors and ceilings.
2. Fluctuations in the Marginal Efficiency of Capital.
3. Innovations.
4. Multiplier-Accelerator Interaction (mathematical model).
Codes:
(A) P-3, Q-2, R-1, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-2, R-1, S-3

193. The simple investment multiplier is given by the formula:
(A) $\frac{1}{1-MPC}$
(B) $\frac{1}{M}PC$
(C) $\frac{1}{1-MPS}$
(D) $\frac{1}{A}PC$

194. In the Cambridge cash-balance approach, if people decide to hold a larger fraction of their income as cash balances, then, ceteris paribus:
(A) The price level will rise.
(B) The price level will fall.
(C) The velocity of circulation will increase.
(D) The money supply will increase.

195. What is the relationship between the Bank Rate and other market interest rates?
(A) A change in the Bank Rate typically signals the central bank's policy stance and influences other rates.
(B) The Bank Rate is always lower than all other market rates.
(C) The Bank Rate is determined by the interaction of demand and supply for

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commercial loans.
(D) There is no relationship between the Bank Rate and other interest rates.

196. An increase in the transaction demand for money would, ceteris paribus, be represented by:
(A) A movement down along the LM curve.
(B) A rightward shift of the LM curve.
(C) A leftward shift of the LM curve.
(D) A rightward shift of the IS curve.

197. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : Monetary policy is highly effective in the classical range of the LM curve.
Reason (R) : In the classical range, the LM curve is vertical, meaning a change in money supply has a maximal impact on income with a minimal change in the interest rate.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

198. The idea that there is a natural rate of unemployment is associated with the work of:
(A) Keynes and Phillips.
(B) Friedman and Phelps.
(C) Tobin and Baumol.
(D) Samuelson and Hicks.

199. A government policy of increasing public expenditure, financed by borrowing from the public, is an example of:
(A) Pure fiscal policy.
(B) Pure monetary policy.
(C) A mix of expansionary fiscal and contractionary monetary effects.
(D) A policy with no macroeconomic impact.

200. What does the policy ineffectiveness proposition of the New Classical School argue?
(A) All government policies are completely ineffective at all times.
(B) Only anticipated stabilization policies are ineffective in influencing real variables like output and employment.
(C) Only unanticipated stabilization policies are ineffective.
(D) Fiscal policy is always ineffective, but monetary policy can be effective.

201. Net Domestic Product at Factor Cost (NDPfc) is also known as:
(A) National Income.
(B) Domestic Income.
(C) Personal Income.
(D) Private Income.

202. The intersection of the aggregate demand and aggregate supply curves in the Keynesian framework determines:
(A) The equilibrium level of income and employment.
(B) The natural rate of unemployment.
(C) The rate of inflation only.
(D) The level of potential output.

203. The 'ratchet effect' and 'demonstration effect' are features of which theory of consumption?
(A) Absolute Income Hypothesis
(B) Life-Cycle Hypothesis
(C) Relative Income Hypothesis
(D) Permanent Income Hypothesis

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204. Which of the following would cause a leftward shift of the IS curve?
(a) A decrease in government purchases.
(b) An increase in taxes.
(c) An autonomous decrease in investment.
(d) A decrease in the money supply.
(e) An increase in consumer confidence.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (c) only
(B) (a), (b), and (d) only
(C) (c), (d), and (e) only
(D) (a), (c), and (e) only

205. The super-multiplier is larger than the simple Keynesian multiplier because it incorporates:
(A) The induced effect of investment via the accelerator.
(B) The effect of foreign trade.
(C) The effect of government taxes.
(D) The effect of changes in the price level.

206. Which motive for holding money is a function of the rate of interest in Keynes's theory?
(A) Transactions motive
(B) Speculative motive
(C) Precautionary motive
(D) All of the above

207. High-Powered Money (H) is so-called because:
(A) It is held only by high-income individuals.
(B) It is created only by the government treasury.
(C) Changes in H can lead to a multiple change in the total money supply.
(D) It consists of high-denomination currency notes.

208. The slope of the LM curve is positive because a higher level of income _____ the demand for money, which must be offset by a _____ interest rate to maintain equilibrium in the money market.
(A) increases; higher
(B) increases; lower
(C) decreases; higher
(D) decreases; lower

209. The breakdown of the original Phillips curve in the 1970s was primarily due to:
(A) A change in the way unemployment was measured.
(B) The adoption of monetarist policies by central banks.
(C) The occurrence of adverse supply shocks and the role of inflationary expectations.
(D) A decrease in the natural rate of unemployment.

210. In Keynes's theory, business cycles are caused by fluctuations in:
(A) The total money supply.
(B) The marginal efficiency of capital, driven by waves of optimism and pessimism.
(C) The rate of innovation.
(D) Government fiscal policy.

211. Which of the following is an example of a policy lag that can reduce the effectiveness of stabilization policy?
(A) The time it takes to collect and process economic data (Data Lag).
(B) The time it takes for policymakers to recognize a problem exists (Recognition Lag).
(C) The time it takes for a policy, once implemented, to affect the economy (Effect Lag).
(D) All of the above.

212. A central tenet of the Rational Expectations Hypothesis is that individuals:
(A) Do not make systematic forecasting errors.
(B) Form expectations based on past errors.
(C) Ignore publicly available information.
(D) Are generally irrational.

213. To avoid the problem of double counting in national income estimation, which of the following should be included?
(A) Value of intermediate goods.
(B) Value of both intermediate and final goods.
(C) Value of final goods and services only.
(D) Total sales of all firms in the economy.

214. The classical theory of employment is a theory of:
(A) Underemployment equilibrium.
(B) Cyclical unemployment.
(C) Full employment.
(D) Disguised unemployment.

215. According to the Permanent Income Hypothesis, a one-time bonus received by an employee will:
(A) Be almost entirely saved.
(B) Be almost entirely consumed in the current period.
(C) Be split equally between consumption and saving.
(D) Have no impact on either consumption or saving.

216. The size of the simple investment multiplier in a closed economy depends on:
(a) The Marginal Propensity to Consume.
(b) The size of the autonomous investment.
(c) The Marginal Propensity to Save.
(d) The rate of interest.
Which of the above statement(s) is/are correct for the most basic multiplier model?
(A) (a) and (c) only
(B) (a) and (b) only
(C) (b) and (d) only
(D) (a), (b), (c), and (d)

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217. In the Keynesian liquidity preference framework, if the central bank increases the money supply, the interest rate will:
(A) Rise.
(B) Fall.
(C) Remain unchanged.
(D) Initially fall and then rise above its original level.

218. An increase in the currency-deposit ratio (cr), all else being equal, will cause the money multiplier to:
(A) Increase.
(B) Decrease.
(C) Remain unchanged.
(D) Become zero.

219. A horizontal LM curve implies:
(A) The classical case where monetary policy is highly effective.
(B) A situation where the demand for money is completely interest-inelastic.
(C) A situation where fiscal policy is completely ineffective.
(D) The liquidity trap where monetary policy is ineffective.

220. Arrange the following macroeconomists' major contributions in chronological order:
1. Milton Friedman's advocacy for the natural rate of unemployment.
2. J. M. Keynes' publication of The General Theory.
3. Robert Lucas Jr.'s development of the Rational Expectations critique.
4. Adam Smith's work on classical economics (as a precursor).

Choose the correct sequence from the options below:
(A) 4, 2, 1, 3
(B) 2, 4, 1, 3
(C) 4, 1, 2, 3
(D) 2, 1, 3, 4

221. 'Contraction' or 'Recession' is the phase of the business cycle that occurs between:
(A) Trough and Peak.
(B) Peak and Trough.
(C) Recovery and Peak.
(D) Depression and Recovery.

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222. The term 'fiscal drag' refers to a situation where:
(A) A progressive tax system automatically increases tax revenues during an expansion, slowing down the economy.
(B) Government spending is too slow to react to a recession.
(C) The national debt becomes unsustainably large.
(D) A budget deficit crowds out private investment.

223. What is the fundamental assumption of the adaptive expectations hypothesis?
(A) People's expectations of the future are based on past values of the variable.
(B) People use all available information to predict the future.
(C) People's expectations are always correct on average.
(D) People never change their expectations.

224. National Income (NI) is equal to:
(A) NNP at market price - Net indirect taxes.
(B) GNP at market price - Depreciation.
(C) GDP at factor cost + NFIA.
(D) Private Income - Corporate taxes.

225. In the classical labor market, unemployment occurs only if:
(A) There is a deficiency in aggregate demand.
(B) The real wage is kept artificially above the market-clearing level.
(C) The money supply is too low.
(D) There are no savings in the economy.

226. Given below are two statements:
Statement I : In the short run, APC can be greater than one.
Statement II : In the long run, APC is constant and equal to MPC.
In the light of the above statements, choose the correct option.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

227. Match the IS-LM Curve Properties in List I with their Implications for Policy in List II:
List I: (IS-LM Curve Property)
P. Flat IS Curve

Q. Steep IS Curve
R. Flat LM Curve
S. Steep LM Curve

List II: (Implication for Policy)
1. Fiscal policy is highly effective.
2. Monetary policy is highly effective.
3. Fiscal policy is less effective.
4. Monetary policy is less effective.

Codes:
(A) P-1, Q-3, R-1, S-2
(B) P-4, Q-2, R-2, S-3
(C) P-4, Q-2, R-1, S-2
(D) P-2, Q-3, R-1, S-3

228. Which theory suggests that business cycles are endogenous, generated by the internal dynamics of the economy?
(A) The sunspot theory.
(B) Hicks's and Samuelson's multiplier-accelerator models.
(C) The real business cycle theory which emphasizes technology shocks.
(D) Schumpeter's innovation theory.

229. A central bank can increase the money supply by:
(A) Increasing the cash reserve ratio.
(B) Selling government securities.
(C) Buying government securities.
(D) Increasing the bank rate.

230. The 'crowding out' effect is stronger if:
(A) The IS curve is flatter and the LM curve is steeper.
(B) The IS curve is steeper and the LM curve is flatter.
(C) Both the IS and LM curves are flatter.
(D) Both the IS and LM curves are steeper.

231. The natural rate of unemployment consists of:
(A) Cyclical and structural unemployment.
(B) Frictional and cyclical unemployment.
(C) Frictional and structural unemployment.
(D) Seasonal and cyclical unemployment.

232. Given below are two statements, one is labelled as Assertion (A) and the other is labelled as Reason (R).
Assertion (A) : According to Keynes, investment is the most volatile component of aggregate demand.
Reason (R) : Investment decisions are based on the marginal efficiency of capital, which is highly unstable as it depends on uncertain and subjective future expectations or 'animal spirits' of entrepreneurs.
In the light of the above statements, choose the most appropriate answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

233. The concept of 'pump priming' in fiscal policy refers to:
(A) A large, sustained increase in government spending to completely close a recessionary gap.
(B) An initial government injection of spending designed to stimulate private sector activity and start a recovery.
(C) Financing a budget deficit through taxation.
(D) The government's effort to control inflation by reducing spending.

234. A key difference between the Rational Expectations Hypothesis and the Adaptive Expectations Hypothesis is how quickly agents:
(A) Spend their income.
(B) Adjust to policy changes.
(C) Save for retirement.
(D) Respond to price signals.

235. The value of a baker's final output (bread) is included in GDP, but the value of the flour they purchased to make the bread is not. This is because:
(A) The value of the flour is already incorporated into the final price of the bread.
(B) Flour is not a valuable good.
(C) The baker did not pay taxes on the flour.
(D) Flour is considered a service, not a good.

236. Which of the following are tenets of the Classical theory of output and employment?
(a) The economy is self-regulating and tends towards full employment.
(b) Say's Law: Supply creates its own demand.
(c) Government intervention is essential for

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stability.
(d) Wages and prices are flexible.
(e) Involuntary unemployment is a persistent feature.

Which of the above statement(s) is/are correct?
(A) (a), (b), and (d) only
(B) (c), (d), and (e) only
(C) (a), (c), and (e) only
(D) (b), (c), and (d) only

237. The 'break-even' point on a consumption function graph is where:
(A) Consumption is equal to savings.
(B) Consumption is equal to income.
(C) Consumption is zero.
(D) Savings are maximized.

238. If the accelerator coefficient is 2, and firms expect output to increase by 50 million this year, what will be the level of net induced investment?
(A) 25 million
(B) 50 million
(C) 100 million
(D) 200 million

239. The demand for money for speculative purposes and the rate of interest are:
(A) Positively related.
(B) Negatively related.
(C) Not related.
(D) Related in a fixed proportion.

240. The LM curve will shift to the left if there is:
(A) An increase in the money supply.
(B) A decrease in the money supply.
(C) An increase in government spending.
(D) A decrease in taxes.

241. What is the primary cause of stagflation?
(A) A rapid increase in aggregate demand.
(B) A positive or favorable supply shock.
(C) An adverse supply shock, such as a sharp increase in the price of oil.
(D) A decrease in inflationary expectations.

242. A balanced budget multiplier states that an equal increase in government spending and taxes will:
(A) Lead to an increase in national income by the same amount.
(B) Lead to a decrease in national income.
(C) Have no effect on national income.
(D) Lead to an increase in national income by a multiple of the spending increase.

243. The Lucas critique argues against the use of traditional econometric models for policy evaluation because:
(A) The models are too simple.
(B) The models' parameters might change when policies change, invalidating the forecast.
(C) The models do not account for international trade.
(D) The data used in the models is always inaccurate.

244. To calculate NNP from GNP, we must:
(A) Add net factor income from abroad.
(B) Subtract net indirect taxes.
(C) Subtract depreciation (capital consumption allowance).
(D) Add subsidies.

245. In the Keynesian framework, equilibrium income is determined where:
(A) Aggregate demand equals aggregate supply.
(B) Planned saving equals planned investment.
(C) The sum of leakages equals the sum of injections.
(D) All of the above are correct.

246. Which of the following are assumptions of the simple Keynesian multiplier?
(a) The price level is constant.
(b) There is less-than-full employment in the economy.
(c) The interest rate is fixed.
(d) It is a closed economy with no government activity.

Which of the above statement(s) is/are correct for the most basic multiplier model?
(A) (a) and (b) only
(B) (c) and (d) only
(C) (a), (b), and (d) only
(D) (a), (b), (c), and (d)

247. A vertical IS curve would imply that:
(A) Fiscal policy is highly effective.
(B) Monetary policy is completely ineffective.
(C) Investment is highly sensitive to the interest rate.
(D) The money market is in a liquidity trap.

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248. The long-run Phillips curve is vertical. This means that in the long run:
(A) There is no trade-off between inflation and unemployment.
(B) There is a permanent trade-off between inflation and unemployment.
(C) The unemployment rate can be held below the natural rate with stable inflation.
(D) The inflation rate is always zero.

249. Which of the following is considered a 'leakage' from the circular flow of income?
(A) Investment
(B) Government spending
(C) Exports
(D) Savings

250. According to the Rational Expectations Hypothesis:
(a) Only unanticipated policy actions affect real output.
(b) Agents use all available and relevant information to form expectations.
(c) Forecast errors are random and have a mean of zero.
(d) People can be systematically fooled by predictable government policies.
(e) The Phillips curve is vertical even in the short run for anticipated policy changes.
Which of the above statement(s) is/are correct?
(A) (a), (b), and (d) only
(B) (a), (b), (c), and (e) only
(C) (c), (d), and (e) only
(D) (a), (d), and (e) only

Direction : Please read the following source carefully.

The measurement of national income is a cornerstone of macroeconomic analysis, providing a comprehensive quantitative picture of an economy's performance. The primary aggregate, Gross Domestic Product (GDP), represents the total market value of all final goods and services produced within a country's geographical boundaries during a specific period. Distinguishing it from Gross National Product (GNP) is crucial; GNP adjusts GDP by incorporating the Net Factor Income from Abroad (NFIA), which is the difference between income earned by a country's residents from foreign sources and income paid to foreign residents for their contributions to domestic production. Further refinement leads to Net National Product (NNP) at market prices, derived by subtracting depreciation or capital consumption allowance from GNP. When NNP at market prices is adjusted for indirect taxes and subsidies, we arrive at NNP at factor cost, commonly referred to as National Income. The measurement itself can be approached through three methods: the product or value-added method, which sums up the value added at each stage of production to avoid double-counting; the income method, which aggregates all factor incomes (wages, rent, interest, profit); and the expenditure method, which totals all final expenditures on goods and services (C+I+G+(X-M)). In theory, all three methods should yield the same result.

Based on the above source, attempt the following five questions.

251. Which of the following correctly defines the relationship between Gross National Product (GNP) and Gross Domestic Product (GDP)?
(A) GNP is derived by subtracting Net Factor Income from Abroad from GDP.
(B) GNP is calculated by adding Net Factor Income from Abroad to GDP.
(C) GNP and GDP are identical concepts, differing only in their calculation method.
(D) GNP equals GDP minus depreciation and indirect taxes.

252. The concept of 'National Income' is most accurately represented by which of the following measures?
(A) Net National Product at factor cost.
(B) Gross Domestic Product at market prices.
(C) Gross National Product at market prices.
(D) Net National Product at market prices.

253. What is the primary purpose of using the 'value-added' method in calculating national income?
(A) To include the value of intermediate goods for a comprehensive measure.
(B) To sum up the factor incomes of all residents in the economy.
(C) To prevent the problem of double-counting in the aggregation process.
(D) To measure the total expenditure on final goods and services.

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254. If a country's Net Factor Income from Abroad is negative, what does this imply about its national income aggregates?
(A) Its GNP will be greater than its GDP.
(B) Its NNP at factor cost will be zero.
(C) Its depreciation value will exceed its gross investment.
(D) Its GDP will be greater than its GNP.

255. According to the expenditure method, which components are summed to calculate national income?
(A) Wages, rent, interest, and profit.
(B) The value added by primary, secondary, and tertiary sectors.
(C) Consumption, investment, government spending, and net exports.
(D) NNP at market prices plus subsidies minus indirect taxes.

Direction : Please read the following source carefully.

The determination of output and employment is a central debate in macroeconomics, largely defined by the contrasting perspectives of the Classical and Keynesian schools of thought. The Classical approach, rooted in the works of economists like Adam Smith and David Ricardo, is built upon the foundation of Say's Law, which posits that supply creates its own demand. This framework assumes wage-price flexibility, ensuring that markets, particularly the labor market, always clear. Consequently, the Classical model concludes that the economy naturally gravitates towards a state of full employment, where involuntary unemployment is a temporary anomaly resolved by automatic market adjustments. Any deviation from full employment is attributed to market frictions or external interventions. In stark contrast, the Keynesian approach, developed by John Maynard Keynes, challenges this notion. Keynes argued that aggregate demand, not aggregate supply, is the primary determinant of the overall level of economic activity. He introduced the 'principle of effective demand,' suggesting that an economy can settle into a stable equilibrium at a level of output far below its full employment potential. This 'underemployment equilibrium' is possible due to factors like wage rigidity (especially downwards) and the possibility of a liquidity trap, where monetary policy becomes ineffective. For Keynes, aggregate demand deficiencies are the root cause of persistent involuntary unemployment.

Based on the above source, attempt the following five questions.

256. What is the fundamental proposition of Say's Law, which underpins the Classical model of employment?
(A) Aggregate demand is the principal determinant of output.
(B) Supply creates its own demand, ensuring markets clear.
(C) Involuntary unemployment is a persistent feature of market economies.
(D) Wage rigidity prevents the labor market from achieving equilibrium.

257. According to the Keynesian approach, what is the primary cause of persistent involuntary unemployment?
(A) Excessive wage-price flexibility in the labor market.
(B) The failure of supply to create its own demand.
(C) The economy's natural tendency to operate at full employment.
(D) A deficiency in the aggregate demand for goods and services.

258. Which of the following assumptions is characteristic of the Classical model but not the Keynesian model?
(A) The automatic adjustment of wages and prices to ensure full employment.
(B) The existence of an underemployment equilibrium.
(C) The importance of the principle of effective demand.
(D) The possibility of a liquidity trap rendering monetary policy ineffective.

259. The concept of an 'underemployment equilibrium' is a central feature of which economic framework?
(A) The Classical theory of output and employment.
(B) Say's Law of markets.
(C) The Keynesian theory of output and employment.
(D) The Quantity Theory of Money.

NODIA

260. A key difference between the Classical and Keynesian views on employment is that:
(A) Classicals see full employment as the norm, while Keynesians argue that underemployment can be a stable equilibrium.
(B) Classical economists believe in persistent involuntary unemployment, while Keynesians do not.
(C) Keynesians emphasize the role of aggregate supply, while Classicals emphasize aggregate demand.
(D) Keynesians believe in perfect wage flexibility, while Classicals argue for wage rigidity.

Direction : Please read the following source carefully.

The Keynesian consumption function is a pivotal concept in macroeconomics, describing the relationship between aggregate consumption and aggregate disposable income. John Maynard Keynes posited a 'fundamental psychological law' stating that as income increases, consumption also increases, but not by as much as the increase in income. This relationship is mathematically expressed as C = a + bYd, where 'C' is total consumption, 'a' is autonomous consumption (consumption when income is zero), 'Yd' is disposable income, and 'b' is the Marginal Propensity to Consume (MPC). The MPC represents the fraction of an additional unit of income that is consumed (ΔC/ΔYd), and its value is assumed to be greater than zero but less than one (0 < b < 1). Another related concept is the Average Propensity to Consume (APC), which is the ratio of total consumption to total income (C/Yd). A key feature of the short-run Keynesian consumption function is that the APC falls as income rises, while the MPC is assumed to be constant. This implies that as a society becomes richer, it tends to save a larger proportion of its income. The position of the consumption function is not static; it can shift due to various objective factors (like changes in the interest rate or fiscal policy) and subjective factors (like unforeseen contingencies or the desire to build wealth).

Based on the above source, attempt the following five questions.

261. According to Keynes's 'fundamental psychological law of consumption', what happens as income increases?
(A) Consumption increases by an amount exactly equal to the increase in income.
(B) Consumption decreases as households choose to save more.
(C) Consumption remains constant, as it is determined autonomously.
(D) Consumption increases, but by a smaller amount than the increase in income.

262. In the context of the Keynesian consumption function, what does the Marginal Propensity to Consume (MPC) measure?
(A) The total amount of consumption at a zero level of income.
(B) The fraction of an additional unit of income that is allocated to consumption.
(C) The proportion of total income that is spent on consumption.
(D) The tendency for the average consumption rate to fall as income rises.

263. The expression C = a + bYd represents the consumption function. What does the parameter 'a' signify?
(A) The Marginal Propensity to Consume.
(B) Induced consumption dependent on income.
(C) Autonomous consumption independent of income.
(D) The level of saving in the economy.

NODIA

264. A key property of the short-run Keynesian consumption function is that as disposable income rises:
(A) The Average Propensity to Consume (APC) rises, and the MPC remains constant.
(B) Both the APC and the MPC fall.
(C) Both the APC and the MPC rise.
(D) The Average Propensity to Consume (APC) falls, and the MPC remains constant.

265. What does the inequality 0 < MPC < 1 imply?
(A) A portion of any additional income is consumed, and the remaining portion is saved.
(B) All additional income is saved.
(C) All additional income is consumed.
(D) Consumption is completely independent of

changes in income.

Direction : Please read the following source carefully.

The investment function in macroeconomic theory establishes the relationship between the level of investment spending and its key determinants. In the Keynesian framework, the decision to invest is primarily governed by a comparison between the expected rate of return from a new capital asset and the market rate of interest. The expected rate of return is termed the Marginal Efficiency of Capital (MEC). The MEC is the rate of discount that would equate the present value of the stream of expected future net income from a capital asset to its supply price or cost. An entrepreneur will undertake an investment project only if its MEC is greater than or equal to the prevailing market rate of interest. As more investment is undertaken in the economy, the MEC tends to fall due to rising costs of capital goods and diminishing prospective yields. This inverse relationship between the volume of investment and the MEC (or the rate of interest) gives rise to a downward-sloping investment demand curve. It is also important to distinguish between autonomous investment, which is independent of the level of income and driven by factors like technological innovation or long-term growth prospects, and induced investment, which is directly related to changes in the level of income or output.

Based on the above source, attempt the following five questions.

266. According to the Keynesian theory of investment, a firm will decide to invest in a new project when:
(A) The market rate of interest is significantly higher than the Marginal Efficiency of Capital.
(B) The Marginal Efficiency of Capital is greater than or equal to the market rate of interest.
(C) The level of induced investment is equal to zero.
(D) The supply price of the capital asset is greater than its expected future income.

267. What is the definition of the Marginal Efficiency of Capital (MEC)?
(A) The market rate of interest charged on loans for capital investment.
(B) The rate of discount that equates the present value of future returns from an asset to its cost.
(C) The actual historical profit earned from a capital asset.
(D) The change in investment resulting from a change in income.

268. The investment demand curve in the Keynesian model is downward sloping because:
(A) The Marginal Efficiency of Capital tends to decline as more investment is undertaken.
(B) As investment increases, the market rate of interest tends to rise.
(C) Autonomous investment is always greater than induced investment.
(D) As income rises, a smaller proportion of it is invested.

269. Investment that occurs due to technological advancements or population growth, irrespective of the current level of national income, is known as:
(A) Induced investment.
(B) Private investment.
(C) Autonomous investment.
(D) Gross investment.

270. A decrease in the market rate of interest, ceteris paribus, would likely lead to:
(A) A downward shift in the MEC schedule.
(B) A decrease in the volume of investment.
(C) A movement down along the investment demand curve.
(D) An increase in the volume of investment.

Direction : Please read the following source carefully.

The concepts of the multiplier and the accelerator are central to understanding how changes in spending can have a magnified impact on the economy and contribute to economic fluctuations. The investment multiplier, introduced by Keynes, explains how an initial change in autonomous investment spending leads to a much larger total change in national income. The magnitude of the multiplier is determined by the Marginal Propensity to Consume (MPC); specifically, the multiplier (k) is the reciprocal of the Marginal Propensity to Save (MPS) or 1/(1-MPC). A higher MPC means a larger portion of each new

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round of income is spent, leading to a larger multiplier effect. While the multiplier describes how income responds to changes in investment, the accelerator principle describes the reverse effect: how investment responds to changes in income or consumption. The accelerator posits that net investment is a function of the change in output. When demand for consumer goods rises, firms must increase their capital stock to meet this higher demand, leading to a surge in induced investment. The interaction between the multiplier and the accelerator can create a self-sustaining process of economic expansion or contraction. An initial increase in autonomous investment, through the multiplier, raises income, which in turn, through the accelerator, induces further investment, leading to another round of multiplier effects, potentially explaining the cyclical nature of business activity.

Based on the above source, attempt the following five questions.

271. The value of the Keynesian investment multiplier is directly determined by which of the following?
(A) The level of autonomous investment.
(B) The rate of interest.
(C) The Marginal Propensity to Consume.
(D) The accelerator coefficient.

272. If the Marginal Propensity to Consume (MPC) in an economy is 0.75, what is the value of the investment multiplier?
(A) 1.33
(B) 4
(C) 0.75
(D) 0.25

273. The accelerator principle establishes a relationship between:
(A) The change in investment and the resulting change in saving.
(B) The level of aggregate income and the level of consumption.
(C) The level of autonomous investment and the level of aggregate income.
(D) The change in output or consumption and the level of induced investment.

274. What best describes the interaction between the multiplier and the accelerator?
(A) Their interaction can amplify economic fluctuations, contributing to business cycles.
(B) The multiplier dampens the effects of the accelerator, leading to economic stability.
(C) The accelerator negates the effect of the multiplier, rendering it ineffective.
(D) The two principles are unrelated and operate independently in the economy.

NODIA

275. An increase in autonomous investment generates a larger increase in national income. This phenomenon is known as the:
(A) Accelerator effect.
(B) Crowding-out effect.
(C) Multiplier effect.
(D) Wealth effect.

Direction : Please read the following source carefully.

The demand for money is a fundamental topic in macroeconomics, exploring why individuals and firms choose to hold a portion of their assets in the form of liquid money rather than in interest-bearing assets. The Keynesian theory of liquidity preference provides a comprehensive framework by identifying three primary motives for holding money. First, the transactions motive arises from the need for cash to conduct day-to-day transactions for goods and services; this demand is primarily a function of the level of income. Second, the precautionary motive involves holding money as a contingency against unforeseen expenses or emergencies, and it is also largely determined by the level of income. The third and most innovative motive is the speculative demand for money. This arises from the desire to hold cash to speculate on the future movements of interest rates and bond prices. Keynes argued that there is an inverse relationship between the market rate of interest and the price of bonds. When the interest rate is high, individuals expect it to fall (and bond prices to rise), so they hold bonds instead of money. Conversely, when the interest rate is very low, they expect it to rise (and bond prices to fall), so they prefer to hold liquid cash. This speculative demand is therefore an inverse function of the rate of interest. At a critically low interest rate, the speculative demand for money may become perfectly elastic, a situation known as the liquidity trap.

Based on the above source, attempt the following five questions.

276. According to Keynesian liquidity preference theory, which two motives for holding money are primarily determined by the level of income?
(A) Transactions and precautionary motives.
(B) Speculative and precautionary motives.
(C) Transactions and speculative motives.
(D) Asset and transactions motives.

277. The speculative demand for money, as described by Keynes, is based on an inverse relationship between the rate of interest and:
(A) The general price level.
(B) The level of national income.
(C) The supply of money.
(D) The price of bonds.

278. What is the relationship between the speculative demand for money and the rate of interest?
(A) It is a positive and direct relationship.
(B) It is a negative and inverse relationship.
(C) There is no functional relationship between the two.
(D) The relationship is positive at low interest rates and negative at high rates.

279. The situation where the speculative demand for money becomes perfectly elastic at a very low rate of interest is known as the:
(A) Multiplier effect.
(B) Accelerator principle.
(C) Liquidity trap.
(D) Crowding-out effect.

280. Why would an individual choose to hold more money for speculative purposes when the interest rate is very low?
(A) They expect the interest rate to fall further, leading to capital gains on bonds.
(B) The opportunity cost of holding money is high.
(C) The transactions demand for money has decreased significantly.
(D) They expect the interest rate to rise, which would cause a capital loss on bonds.

Direction : Please read the following source carefully.

The IS-LM model, developed by John Hicks and Alvin Hansen, is a cornerstone of Keynesian macroeconomics that demonstrates how the equilibrium levels of national income and interest rates are jointly determined by the simultaneous equilibrium in the goods market and the money market. The IS curve represents all combinations of interest rates (r) and income levels (Y) at which the goods market is in equilibrium, which occurs when planned investment equals planned saving (I=S). The IS curve is downward sloping because a lower interest rate stimulates investment spending, which, through the multiplier effect, leads to a higher equilibrium level of income. Conversely, the LM curve represents all combinations of 'r' and 'Y' where the money market is in equilibrium, meaning the demand for money (L) equals the supply of money (M). The LM curve is typically upward sloping. This is because a higher level of income increases the transactions demand for money, and given a fixed money supply, the interest rate must rise to reduce the speculative demand for money and restore equilibrium in the money market. The unique point where the IS and LM curves intersect represents the overall macroeconomic equilibrium, where both the goods market and the money market are in balance simultaneously, yielding the unique equilibrium interest rate and national income for the economy.

Based on the above source, attempt the following five questions.

281. What does the IS curve represent in the IS-LM model?
(A) The equilibrium conditions in the goods market.
(B) The equilibrium conditions in the money market.
(C) The relationship between inflation and unemployment.
(D) The total supply of goods and services in the economy.

282. The IS curve has a negative slope because:
(A) A lower interest rate discourages saving, leading to lower income.
(B) A lower interest rate encourages investment, which increases equilibrium income.
(C) A higher interest rate increases the money supply, leading to lower income.
(D) A higher level of income leads to a higher interest rate.

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283. The LM curve illustrates the set of combinations of income and interest rates for which:
(A) The goods market is in equilibrium (I=S).
(B) The money market is in equilibrium (L=M).
(C) The labor market is in equilibrium.
(D) The balance of payments is in equilibrium.

284. Why is the LM curve typically upward sloping?
(A) A higher income level increases money demand, requiring a higher interest rate to maintain equilibrium.
(B) A higher income level decreases the demand for money, causing interest rates to fall.
(C) A higher interest rate stimulates investment, which raises income.
(D) A higher money supply leads to both higher income and higher interest rates.

285. In the IS-LM framework, the point where the IS and LM curves intersect signifies:
(A) An underemployment equilibrium only.
(B) A full employment equilibrium only.
(C) Simultaneous equilibrium in both the goods and money markets.
(D) A situation where planned investment is greater than planned saving.

Direction : Please read the following source carefully.

The relationship between inflation and unemployment has been a central theme in macroeconomic policy, famously captured by the Phillips Curve. Originally observed by A.W. Phillips, the curve depicted a stable, inverse relationship between the rate of wage inflation (and by extension, price inflation) and the rate of unemployment in the United Kingdom. This suggested that policymakers faced a trade-off: they could achieve lower unemployment at the cost of higher inflation, or maintain price stability at the cost of higher unemployment. However, this simple trade-off was challenged in the 1970s when many economies experienced 'stagflation'—simultaneously high inflation and high unemployment. This led to the development of the expectations-augmented Phillips Curve by economists like Milton Friedman and Edmund Phelps. They argued that the trade-off exists only in the short run. In the long run, they proposed, the economy would return to a 'natural rate of unemployment' (NRU), and the long-run Phillips Curve would be vertical at this rate. According to this view, any attempt to hold unemployment below the natural rate through expansionary policy would only lead to accelerating inflation as workers and firms adjust their inflation expectations upwards. Thus, in the long run, there is no trade-off, and unemployment is independent of the rate of inflation.

Based on the above source, attempt the following five questions.

286. The original Phillips Curve described what kind of relationship between inflation and unemployment?
(A) A stable and positive relationship.
(B) A vertical relationship with no trade-off.
(C) A horizontal relationship with an infinite trade-off.
(D) A stable and inverse relationship.

287. The policy implication of the original Phillips Curve was that:
(A) Inflation and unemployment could be reduced simultaneously.
(B) Monetary policy was ineffective in controlling either inflation or unemployment.
(C) Policymakers faced a menu of choices, trading higher inflation for lower unemployment.
(D) The unemployment rate was fixed at a natural level regardless of policy.

NODIA

288. The phenomenon of 'stagflation' that occurred in the 1970s contradicted the simple Phillips Curve because it involved:
(A) Simultaneously low inflation and low unemployment.
(B) Simultaneously high inflation and high unemployment.
(C) Stable prices and very low unemployment.
(D) Deflation accompanied by rising employment.

289. According to the expectations-augmented Phillips Curve theory, the long-run Phillips Curve is:
(A) Downward sloping, indicating a permanent trade-off.
(B) Upward sloping, indicating a positive relationship.
(C) Horizontal at the expected rate of inflation.

(D) Vertical at the natural rate of unemployment.

290. What is the primary conclusion of the long-run Phillips Curve analysis?
(A) There is no long-run trade-off, and systematic attempts to lower unemployment below the natural rate lead only to higher inflation.
(B) A permanent trade-off between inflation and unemployment exists.
(C) Expansionary policies can permanently reduce unemployment below its natural rate.
(D) The natural rate of unemployment can be easily reduced through demand-side policies.

Direction : Please read the following source carefully.

Business cycles refer to the recurrent but non-periodic fluctuations in aggregate economic activity that an economy experiences over time. These cycles are characterized by alternating periods of expansion and contraction. A typical cycle can be broken down into four distinct phases: expansion (or boom), where economic activity is growing; a peak, which marks the highest point of the expansion; contraction (or recession), where economic activity declines; and a trough, which is the lowest point of the contraction, after which a new expansion begins. A key feature of business cycles is the co-movement of many macroeconomic variables. During an expansion, variables such as production, employment, investment, and profits typically rise together, while unemployment falls. The opposite occurs during a contraction. The cycles are pervasive, affecting most sectors and industries within an economy, though not all with the same intensity or timing. While they are recurrent, they are not periodic, meaning their duration and amplitude can vary significantly from one cycle to the next, making them difficult to predict. Theories explaining business cycles are diverse, ranging from Keynesian models that emphasize the interaction of the multiplier and accelerator, to monetary theories focusing on the role of money supply and credit, to real business cycle theories that attribute fluctuations to real shocks to technology and productivity.

Based on the above source, attempt the following five questions.

291. Which of the following best defines a business cycle?
(A) The seasonal variation in agricultural output.
(B) The long-term secular growth trend of an economy.
(C) The recurrent but non-periodic fluctuations in aggregate economic activity.
(D) A government's annual budgetary and fiscal cycle.

292. What are the four recognized phases of a typical business cycle?
(A) Expansion, Peak, Contraction, and Trough.
(B) Inflation, Deflation, Stagflation, and Reflation.
(C) Growth, Maturity, Decline, and Renewal.
(D) Investment, Consumption, Saving, and Employment.

293. The 'co-movement' of macroeconomic variables during a business cycle implies that during a contraction:
(A) Employment rises while production falls.
(B) Unemployment falls while investment rises.
(C) Inflation accelerates while unemployment decreases.
(D) Production, employment, and profits tend to fall together.

294. The statement that business cycles are 'recurrent but not periodic' means that:
(A) They happen only once in an economy's history but follow a fixed pattern.
(B) They happen repeatedly, but their length and intensity are not predictable with certainty.
(C) They are purely random events with no discernible pattern.
(D) They occur at regular, fixed intervals, such as every ten years.

295. The phase of the business cycle that marks the transition from expansion to contraction is known as the:
(A) Trough.
(B) Recovery.
(C) Peak.
(D) Depression.

Direction : Please read the following source

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carefully.

The Rational Expectations Hypothesis (REH), most prominently associated with the new classical school of macroeconomics, represents a significant departure from earlier models of expectation formation. Unlike adaptive expectations, where people form expectations based on past trends, REH posits that economic agents use all available and relevant information to form their expectations about the future. This information set includes not only past data but also an understanding of how the economy works and how the government is likely to conduct its policies. Agents are assumed to make predictions that are, on average, correct, and they do not make systematic or persistent errors. A profound implication of REH is the 'policy ineffectiveness proposition'. This proposition argues that systematic and anticipated monetary or fiscal policies will have no effect on real variables like output and employment, even in the short run. According to this view, if the public anticipates, for example, an expansionary monetary policy, they will immediately adjust their wage and price expectations upwards, neutralizing any potential impact on real output. Only unanticipated policy 'surprises' can affect real variables. Critiques of REH often focus on its stringent assumptions, such as the requirement that all agents possess and process vast amounts of complex information and understand the true economic model, which may not be realistic.

Based on the above source, attempt the following five questions.

296. What is the core assumption of the Rational Expectations Hypothesis (REH)?
(A) Economic agents form expectations based solely on past inflation rates.
(B) Economic agents consistently and systematically underestimate the effects of government policy.
(C) Economic agents have perfect foresight and can predict the future with absolute certainty.
(D) Economic agents use all available information to make unbiased forecasts about the future.

297. The 'policy ineffectiveness proposition' associated with REH suggests that:
(A) Systematic and anticipated policies cannot affect real output and employment.
(B) Only fiscal policy is effective in influencing real output.
(C) All government policies are always ineffective in all circumstances.
(D) Unanticipated policy changes have no impact on the economy.

298. According to REH, which type of policy can have a short-run effect on real economic variables like employment?
(A) A pre-announced, systematic change in the money supply.
(B) A surprising and unanticipated change in monetary policy.
(C) A widely anticipated increase in government spending.
(D) A fiscal policy that follows a fixed and well-understood rule.

299. How does the Rational Expectations Hypothesis differ from the adaptive expectations hypothesis?
(A) REH assumes people only use future data, while adaptive expectations uses past data.
(B) REH assumes people use all available information, while adaptive expectations primarily relies on past trends.
(C) REH suggests people make systematic errors, while adaptive expectations assumes no errors.
(D) REH is applicable only to fiscal policy, while adaptive expectations applies to monetary policy.

300. A major critique of the Rational Expectations Hypothesis is that it:
(A) Assumes individuals have and can process an unrealistic amount of information.
(B) Underestimates the intelligence of economic agents.
(C) Fails to account for the impact of anticipated policies.
(D) Applies only to centrally planned economies.

NODIA

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ANSWERS

1. (B) The market value of final goods and services produced by a country's normal residents in a year, irrespective of geographic location.
   Gross National Product measures the total economic output produced by the permanent residents of a country, regardless of where the production takes place. This concept focuses on the nationality of the factors of production rather than geographical boundaries. It is calculated by adding net factor income from abroad to the gross domestic product. This distinction is crucial for evaluating the total income earned by a nation's citizens worldwide.

2. (A) NNP at market price is GDP at market price minus depreciation plus Net Factor Income from Abroad.
   Net National Product at market price is derived by making specific adjustments to the Gross Domestic Product. First, depreciation is subtracted to account for the wear and tear of capital assets used during the production process. Second, net factor income from abroad is added to transition from a domestic measure to a national one. These comprehensive adjustments ensure the final figure reflects the net wealth generated by residents.

3. (A) Both Statement I and Statement II are true.
   The income method calculates national income by summing all primary incomes earned by factors of production, including wages, rent, interest, and profits. Simultaneously, the expenditure method focuses on the final use of output by adding private consumption, investment, government spending, and net exports. Both approaches are intended to reach the same aggregate value, ensuring a holistic view of the national economic performance through different lenses.

4. (A) P-4, Q-1, R-3, S-2
   National income concepts are differentiated by specific adjustments. Gross Domestic Product at factor cost is derived by subtracting net indirect taxes from market prices. Personal income represents the total receipts of households before direct taxes. Disposable income is the amount remaining after subtracting personal taxes from personal income. Finally, Net National Product at market price accounts for the total value produced by residents after deducting the depreciation of capital.

5. (C) The difference between factor income received from the rest of the world and factor income paid to it.
   Net Factor Income from Abroad is a vital component used to bridge the gap between domestic and national income figures. It represents the net difference between the income earned by domestic residents from their work or investments in foreign countries and the income earned by foreign residents within the domestic economy. This measure determines whether a nation is a net recipient or a net payer of income.

6. (B) 430 billion
   To determine Net National Product at market price, specific values must be adjusted starting from Gross Domestic Product. Depreciation of fifty billion is subtracted to account for capital consumption, reducing the value to four hundred fifty billion. Subsequently, adding a negative net factor income from abroad of twenty billion further adjusts the total to four hundred thirty billion. This systematic calculation ensures the final figure accurately reflects net national wealth.

7. (D) Transfer payments
   Transfer payments are excluded from national income calculations because they do not represent payments for any productive service or current contribution to output. These payments, such as old-age pensions or unemployment benefits, involve a simple redistribution of existing tax revenue rather than the creation of new economic value. Including them would lead to an overestimation of the economy's productive capacity since no goods or services were created.

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8. (A) Both A and R are true and R is the correct explanation of A.
Classical economic theory maintains that a free-market economy naturally operates at a level of full employment. This perspective is rooted in the assumption that wages, prices, and interest rates are perfectly flexible in both directions. Consequently, any temporary imbalance in the labor or product markets is quickly corrected through automatic market adjustments. These forces ensure that the economy consistently returns to its long-run equilibrium level without intervention.

9. (C) Supply creates its own demand.
Say's Law of Markets is a cornerstone of classical economic thought, asserting that the act of producing goods and services generates an equivalent amount of income for factors of production. This income provides the necessary purchasing power to buy the total output created. Therefore, general overproduction is considered impossible in the long run because the supply side inherently drives the demand side of the national economy.

10. (A) Wage and price flexibility ensures a rapid return to full employment.
In Keynesian economics, the assumption of perfect wage and price flexibility is rejected in favor of the concept of sticky or rigid prices. This rigidity, particularly in the downward direction, prevents the economy from automatically correcting unemployment during a recession. Instead, Keynesians argue that the economy can remain stuck in an underemployment equilibrium for long periods unless there is active intervention to boost the aggregate demand.

11. (D) Because prices and wages are assumed to be sticky, especially in the downward direction, preventing market clearing.
The Keynesian model posits that markets do not always clear because wages and prices tend to be rigid or sticky, especially when downward pressure is applied. This lack of flexibility means that a decrease in demand leads to lower output and employment rather than lower prices. Consequently, an increase in aggregate demand is necessary to stimulate production and hire unemployed resources when the economy is underperforming significantly.

12. (A) (a) and (c) only
Classical employment theory is built upon the foundation of perfect competition within all economic markets, including labor and goods. It strictly adheres to Say's Law, which suggests that supply creates its own demand, ensuring long-term equilibrium. Under these assumptions, the economy is viewed as self-correcting through flexible price mechanisms. This perspective argues against the need for government intervention, as market forces naturally maintain the full employment.

13. (C) Aggregate supply function intersects the aggregate demand function.
Effective demand represents the specific point in the Keynesian system where the aggregate demand function intersects with the aggregate supply function. At this equilibrium level, entrepreneurs find it profitable to employ a specific volume of labor to produce the output that consumers and investors are willing to purchase. This concept is fundamental because it determines the actual level of employment and national income achieved by the economy.

14. (A) Both Statement I and Statement II are true.
The Absolute Income Hypothesis focuses on the relationship between current consumption and current disposable income, suggesting that people adjust their spending based on immediate earnings. In contrast, the Permanent Income Hypothesis proposes that consumption decisions are influenced by a household's long-term income expectations over their lifetime. Both theories provide critical insights into how individuals allocate their resources between present consumption and future savings during different economic periods.

15. (A) 150
To find the value of savings, one must first determine the consumption level using the provided function. When income is one thousand, consumption equals one hundred plus seventy-five percent of one thousand, totaling eight hundred fifty. Savings are then calculated by subtracting this consumption from the total disposable income. The resulting difference of one hundred fifty represents the portion of income that is not spent on goods.

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16. (A) 2, 4, 3, 1

The evolution of consumption theories began with the Absolute Income Hypothesis in the nineteen thirties, followed by the Relative Income Hypothesis in the late nineteen forty's. The Life-Cycle Hypothesis was developed in the early nineteen fifties, focusing on lifetime resource allocation. Shortly thereafter, the Permanent Income Hypothesis was introduced in the late nineteen fifties. This sequence reflects the progressive refinement of economic thought regarding household behavior.

17. (B) Consumption increases, but by a smaller amount than the increase in income.

The Psychological Law of Consumption states that as aggregate income increases, consumption also rises, but the increase in consumption is not as large as the increase in income. This behavior occurs because individuals tend to save a portion of their incremental earnings. Consequently, the marginal propensity to consume remains positive but less than one. This fundamental principle explains why savings rates typically increase as a nation.

18. (A) Relative Income Hypothesis

The demonstration effect is a core component of the Relative Income Hypothesis, suggesting that individuals' consumption habits are significantly influenced by the spending patterns of their social peers. People often feel pressure to maintain a certain standard of living to match those around them, which prevents consumption from falling proportionally when income decreases. This social pressure creates a ratchet effect, where consumption levels remain high even.

19. (C) Life-Cycle Hypothesis - Franco Modigliani

Franco Modigliani is the economist primarily associated with the development of the Life-Cycle Hypothesis of consumption. This theory posits that individuals plan their consumption and savings behavior over their entire life cycle, aiming to smooth consumption from their working years into retirement. This perspective differs from theories focusing only on current income, emphasizing wealth and expected future earnings as critical determinants of a household's current financial decisions.

20. (A) (a), (b), and (c) only

Autonomous investment remains constant regardless of the national income level, often driven by government policy or innovation. In contrast, induced investment varies directly with changes in income or demand. The Marginal Efficiency of Capital represents the expected rate of return from an additional unit of investment. Together, these concepts explain how various factors, including market interest rates and expectations, influence the total volume of investment.

21. (C) The expected rate of profit generated from the use of an additional unit of a capital asset.

The Marginal Efficiency of Capital is defined as the highest rate of return expected from an additional unit of a capital asset. It compares the prospective yield of a new investment project with its supply price. Investors use this measure to evaluate the profitability of expanding their capital stock. A project is typically deemed viable if this internal rate of return exceeds the current market rate.

22. (B) Marginal Efficiency of Capital is greater than or equal to the market rate of interest.

A rational firm chooses to undertake a specific investment project only when the expected rate of return, known as the Marginal Efficiency of Capital, is at least equal to the market rate of interest. If the borrowing cost or opportunity cost of capital is higher than the anticipated profit, the investment becomes unattractive. This comparison serves as a critical decision-making threshold for businesses aiming to expand.

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23. (D) An increase in the level of national income has no effect on induced investment.

Induced investment is fundamentally driven by changes in the level of national income and aggregate demand. When income rises, the demand for goods increases, prompting firms to invest in more capital to expand production capacity. Therefore, stating that national income has no effect on induced investment is incorrect. Other factors, such as technological progress and corporate taxes, also play significant roles in determining overall investment.

24. (B) P-4, Q-3, R-1, S-2

The investment multiplier was originally introduced by R.F. Kahn and later refined by J.M. Keynes. The accelerator principle, relating investment to changes in output, is associated with J.M. Clark. The super-multiplier concept, which combines both the multiplier and accelerator effects, was developed by J.R. Hicks. Finally, the Marginal Efficiency of Capital is a key Keynesian concept used to determine the optimal level of investment in an economy.

25. (C) 5
The simple investment multiplier is calculated by dividing one by the marginal propensity to save, which is the complement of the marginal propensity to consume. With a marginal propensity to consume of zero point eight, the marginal propensity to save is zero point two. Dividing one by zero point two yields a multiplier value of five. This indicates that any initial investment will lead to a.

26. (A) Change in the level of output or income.
The accelerator theory of investment posits that the level of net investment depends on the rate of change in national income or output. When the demand for consumer goods increases, firms must expand their production capacity by investing in new capital equipment. The magnitude of this investment is a multiple of the change in output. This relationship highlights how fluctuations in consumption lead to cycles.

27. (A) Both Statement I and Statement II are true.
The multiplier effect describes the process where an initial injection of spending creates a cumulative increase in national income that exceeds the original amount. The value of this multiplier is determined by the portion of income that is saved rather than spent. Because a higher marginal propensity to save reduces the amount of income recirculated, the multiplier value is inversely related to the savings rate in.

28. (A) Both A and R are true and R is the correct explanation of A.
Cyclical fluctuations in an economy are often explained by the dynamic interaction between the multiplier and the accelerator. An initial increase in autonomous investment raises national income through the multiplier effect. This rise in income then induces further investment via the accelerator principle, creating a self-reinforcing upward spiral. Eventually, these forces can also work in reverse, leading to periodic expansions and contractions in economic activity.

29. (C) The multiplier and the accelerator.
The super-multiplier is an advanced economic concept that integrates the effects of both the investment multiplier and the accelerator principle. It accounts for how an initial change in autonomous spending leads to a change in income, which then triggers induced investment. This combined process results in a total change in national income that is significantly larger than what would be predicted by a simple multiplier.

30. (D) The velocity of circulation of money.
In Fisher's Quantity Theory of Money equation, the variable V represents the velocity of circulation of money. This metric indicates the average number of times a single unit of currency is exchanged to facilitate transactions for goods and services within a specific time period. It reflects the efficiency and speed with which money moves through the economy, serving as a link between money and prices.

31. (A) The investment motive.
Keynes identified three primary motives for holding money: the transactions motive for daily expenses, the precautionary motive for unexpected costs, and the speculative motive for capitalizing on interest rate changes. The investment motive is not considered a separate reason for holding liquid cash, as investment typically involves the purchase of non-liquid assets like bonds or capital goods. Holding money itself is seen as alternative.

32. (A) (a), (b), and (d) only
The Cambridge approach uses 'k' to denote the proportion of nominal income that people prefer to hold as cash. The Baumol-Tobin model demonstrates that the transactions demand for money is influenced by both income levels and interest rates. Additionally, classical economists assume that the velocity of money remains relatively stable over time. However, Keynes correctly argued that speculative demand depends on interest rates rather.

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33. (B) The rate of interest.
According to Keynesian theory, the speculative demand for money is primarily determined by the prevailing rate of interest. This motive arises from the uncertainty regarding future interest rates and bond prices. When interest rates are low, individuals expect them to rise and bond prices to fall, leading them to hold more cash. Conversely, high interest rates discourage holding cash, as the opportunity cost of liquidity.

34. (A) Bonds.
James Tobin's portfolio approach refined the demand for money by analyzing how individuals choose between holding liquid money and interest-bearing bonds. Unlike the simple Keynesian model, Tobin argued that people hold a diversified mix of both assets to balance the desire for liquidity against the risk of capital loss. This decision is based on a rational assessment of the expected returns and risks involved.

35. (C) Perfectly elastic.
A liquidity trap occurs when the market interest rate falls to an extremely low level, causing the public to believe that rates can only rise in the future. In this situation, individuals prefer to hold all their wealth in cash rather than bonds, making the speculative demand for money perfectly elastic. Consequently, any increase in the money supply by the central bank fails.

36. (D) Currency held by the public plus cash reserves of commercial banks.
High-powered money, also known as the monetary base, consists of the total currency held by the public plus the cash reserves maintained by commercial banks. This base is directly controlled by the central bank and serves as the foundation for credit creation in the banking system. Because bank reserves can support a larger volume of deposits, changes in high-powered money lead to multiple changes.

37. (C) The money supply to high-powered money.
The money multiplier is defined as the mathematical ratio that describes how the total money supply in an economy changes in response to a change in the monetary base. It is calculated by dividing the total money supply by the amount of high-powered money. This value depends on the banking habits of the public and the reserve requirements imposed on commercial banks by authorities.

38. (A) Both Statement I and Statement II are false.
Increasing the Cash Reserve Ratio forces commercial banks to hold a larger portion of their deposits as reserves, which reduces their lending capacity and decreases the total money supply. Furthermore, the money multiplier is inversely related to the currency-deposit ratio; as people hold more cash relative to deposits, banks have fewer funds to lend. Therefore, both statements regarding the expansion of money supply are.

39. (D) Currency with the public + Net demand deposits of the banking system + 'Other' deposits with the RBI.
In the Indian monetary system, M1 represents the most liquid measure of the money supply, often called narrow money. It includes the total currency and coins held by the public, net demand deposits with the commercial banking system, and 'other' deposits maintained with the Reserve Bank of India. This measure excludes time deposits and savings in post offices, focusing strictly on funds available.

40. (A) Increase the reserves of commercial banks and increase the money supply.
When a central bank conducts an open market purchase, it buys government securities from commercial banks and the public, paying for them with new money. This transaction directly increases the excess reserves of the banking system, allowing banks to expand their lending activities. As a result, the total money supply in the economy increases. This is a primary tool of expansionary monetary policy used.

41. (C) An increase in the public's desire to hold currency relative to deposits.
The money multiplier decreases when the banking system's ability to create credit is restricted. If the public decides to hold more currency relative to their bank deposits, the amount of money available for banks to lend out is reduced. This leakage from the circular flow of credit slows down the deposit expansion process. Consequently, the overall ratio of the total money supply to base.

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42. (A) The combinations of interest rate and income that bring equilibrium in the goods market.
The IS curve illustrates all possible combinations of interest rates and levels of national income where the goods market is in equilibrium. At every point on this curve, the planned investment in the economy is exactly equal to the planned savings. The downward slope of the curve reflects the inverse relationship between the interest rate and the level of aggregate demand for all goods.

43. (D) An increase in autonomous investment.
A rightward shift of the IS curve occurs when there is an increase in any component of autonomous spending that is not related to the interest rate. For example, a rise in autonomous investment or government expenditure boosts aggregate demand at every interest rate level. This shift indicates that a higher level of national income is required to maintain equilibrium in the product market.

44. (A) P-2, Q-3, R-1, S-1
Expansionary monetary policy, such as increasing the money supply, shifts the LM curve to the right. Conversely, expansionary fiscal policy, like increasing government spending, shifts the IS curve to the right. Contractionary measures, such as raising taxes or decreasing autonomous investment, result in a leftward shift of the IS curve. These shifts determine the new equilibrium levels of income and interest rates in the.

45. (C) A higher income increases money demand, requiring a higher interest rate for equilibrium given a fixed money supply.
The LM curve slopes upward because of the positive relationship between national income and the demand for money. As the level of income rises, individuals require more cash to facilitate a higher volume of transactions. Given a fixed supply of money, this increased demand for liquidity can only be satisfied if the interest rate rises to discourage speculative holdings. Thus, higher income corresponds.

46. (D) The IS curve shifts to the right, leading to higher income and a higher interest rate.
Expansionary fiscal policy, such as an increase in government spending or a reduction in taxes, increases aggregate demand and shifts the IS curve to the right. This shift moves the equilibrium of the economy to a higher level of national income. However, the increased demand for money resulting from higher income also pushes the interest rate upward. Thus, the final outcome is higher income.

47. (A) Increased government spending leads to a decrease in private investment.
The crowding-out effect occurs when increased government spending leads to a rise in market interest rates. Because the government competes for loanable funds or triggers higher money demand, the cost of borrowing increases for the private sector. Consequently, private businesses may reduce their planned investment projects. This phenomenon suggests that fiscal expansion can partially offset its own impact on aggregate demand by reducing private.

48. (A) Both A and R are true and R is the correct explanation of A.
In a liquidity trap, the LM curve becomes perfectly horizontal because the demand for money is infinitely elastic at very low interest rates. Under these conditions, expansionary fiscal policy is exceptionally effective because the rightward shift of the IS curve does not cause the interest rate to rise. Since interest rates remain stable, there is no crowding out of private investment, allowing the multiplier.

49. (C) When the IS curve is vertical.
Monetary policy becomes completely ineffective in changing the level of national income when the IS curve is vertical. A vertical IS curve implies that investment and aggregate demand are totally insensitive to changes in the interest rate. In this scenario, even if the central bank shifts the LM curve by increasing the money supply, the resulting fall in interest rates fails to stimulate spending.

50. (A) An excess of aggregate demand over aggregate supply at the full employment level.
Demand-pull inflation occurs when the total demand for goods and services in an economy exceeds its capacity to produce them at the full employment level. This too much money chasing too few goods scenario forces prices to rise as consumers and businesses compete for

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limited output. Factors such as excessive money supply growth or large government deficits often trigger this type of inflationary pressure.

51. (A) Both Statement I and Statement II are true.
Cost-push inflation is triggered by increases in the costs of essential inputs, such as labor or raw materials, which reduce aggregate supply. Meanwhile, an inflationary gap arises when aggregate demand exceeds the economy's potential output at full employment, putting upward pressure on the general price level. Both concepts are fundamental to understanding the different drivers of rising prices within a modern macroeconomic environment.

52. (B) The rate of wage inflation and the rate of unemployment.
The original Phillips Curve, developed by A.W. Phillips, illustrates a stable and inverse relationship between the rate of change in money wages and the rate of unemployment. This empirical observation suggested that policymakers faced a trade-off: they could achieve lower unemployment only by accepting higher wage inflation, or vice versa. This framework dominated economic policy thinking until structural changes and stagflation occurred.

53. (B) (a), (b), and (c) only
Cost-push inflation stems from factors that increase total costs of production for firms, leading them to raise prices to maintain profit margins. Significant causes include wage increases that outpace productivity gains, the exercise of monopoly power by firms to increase profits, and higher indirect taxes imposed by the government. These supply-side pressures reduce the total output available at any given price level in.

54. (B) Any rate of inflation is consistent with the natural rate of unemployment in the long run.
The long-run Phillips curve is vertical at the natural rate of unemployment, indicating that there is no permanent trade-off between inflation and unemployment. In the long run, inflationary expectations adjust to actual inflation, and the economy returns to its natural unemployment level regardless of the inflation rate. This implies that monetary policy cannot keep unemployment below this natural level indefinitely without causing inflation.

55. (C) High inflation and high unemployment (stagnant growth).
Stagflation describes an unusual and difficult economic situation characterized by the simultaneous occurrence of stagnant economic growth and high inflation. During such periods, the economy faces rising unemployment alongside increasing prices for goods and services. This phenomenon often results from a major supply-side shock, such as a sudden spike in energy costs, which shifts the aggregate supply curve to the left, hurting consumers.

56. (B) Natural rate of unemployment.
The Non-Accelerating Inflation Rate of Unemployment, commonly referred to as the natural rate of unemployment, is the specific level of unemployment toward which the economy gravitates in the long run. At this rate, the labor market is in equilibrium, and there is no pressure for inflation to either increase or decrease. It encompasses both frictional and structural unemployment but excludes cyclical fluctuations.

57. (A) 3, 2, 1, 4
A standard business cycle consists of four distinct phases that repeat over time in a specific sequence. It begins at the trough, the lowest point of economic activity, followed by an expansion phase where output and employment rise. The cycle reaches its zenith at the peak before entering a contraction or recession phase. This orderly progression helps economists identify the current state.

58. (D) Increasing inflationary pressures.
During a recession, the economy experiences a significant decline in economic activity, characterized by falling output, rising unemployment, and decreasing business profits. Because demand is weak, firms often find themselves with excess inventory and reduced pricing power. Therefore, increasing inflationary pressure is typically not a feature of this phase; instead, inflation usually slows down or may even turn into deflation as activity.

59. (C) Innovations introduced by entrepreneurs.

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Joseph Schumpeter's theory of business cycles identifies technological innovations and the actions of entrepreneurs as the primary drivers of economic fluctuations. According to this view, the introduction of new products or production methods triggers a wave of investment and expansion. However, as these innovations are absorbed and the creative destruction process unfolds, the economy eventually enters a period of contraction until new.

60. (A) (a), (b), and (d) only
The expansion phase of a business cycle is marked by a general rise in economic activity, including increasing levels of employment, production, and national income. During this period, both consumers and businesses typically exhibit higher levels of confidence, leading to increased spending and investment. As the demand for credit grows to fund this expansion, market interest rates often begin to rise steadily.

61. (B) Paul Samuelson
Paul Samuelson developed a classic mathematical model that explains business cycles through the dynamic interaction between the Keynesian multiplier and the accelerator principle. In this framework, an initial change in investment triggers a series of income changes, which then induce further fluctuations in investment. Depending on the specific values of the marginal propensity to consume and the accelerator coefficient, the model can generate.

62. (B) To control inflation by reducing aggregate demand.
The primary goal of a contractionary monetary policy is to reduce the rate of inflation by cooling down an overheating economy. The central bank achieves this by reducing the money supply or increasing interest rates, which lowers aggregate demand for goods and services. By making borrowing more expensive and saving more attractive, the policy aims to bring the price level back toward.

63. (B) Bank Rate.
Quantitative instruments of monetary policy are tools used by the central bank to regulate the total volume of credit and money supply in the entire economy. The Bank Rate is a prime example, as it represents the interest rate at which the central bank lends to commercial banks. Changes in this rate influence the overall cost of credit, affecting all sectors of economy.

64. (A) P-3, Q-1, R-2, S-1
Open market operations are a quantitative tool used to manage the money supply, while public expenditure and taxation are core instruments of fiscal policy controlled by the government. Margin requirements serve as a qualitative or selective monetary tool aimed at controlling credit for specific purposes. Together, these different policy instruments allow authorities to influence aggregate demand and maintain economic stability through various.

65. (C) Contractionary monetary policy.
An increase in the Cash Reserve Ratio is a contractionary monetary policy action because it mandates that commercial banks hold a larger percentage of their deposits as reserves with the central bank. This reduction in loanable funds limits the ability of banks to create credit, thereby decreasing the total money supply in the economy. Such measures are typically employed to combat high inflation.

66. (B) Public debt
Fiscal policy involves the use of government spending, taxation, and public debt management to influence the level of aggregate demand in the economy. Managing public debt is a key instrument, as the government can borrow from the public to finance its expenditures or influence liquidity. In contrast, tools like the bank rate, open market operations, and reserve ratios are part of monetary policy.

67. (D) Automatically reduce the fluctuations in the business cycle without any discretionary government action.
Automatic stabilizers are economic mechanisms built into the government's budget that naturally counteract fluctuations in the business cycle without requiring new legislation. For instance, during a recession, tax revenues automatically fall while spending on unemployment benefits rises, which helps sustain aggregate demand. These features provide immediate, counter-cyclical support to the economy, reducing the severity of booms and busts through their inherent budgetary design.

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68. (A) Both A and R are true and R is the correct explanation of A.
The Rational Expectations Hypothesis argues that anticipated changes in monetary or fiscal policy are ineffective at altering real output or employment levels. This is because rational economic agents utilize all available information to predict policy shifts and adjust their behavior accordingly. For instance, if people expect inflation to rise due to an expansionary policy, they will demand higher wages immediately, neutralizing the effects.

69. (C) Rational Expectations Hypothesis
The policy ineffectiveness proposition is a fundamental conclusion derived from the Rational Expectations school of macroeconomic thought. It suggests that systematic and predictable government interventions cannot influence real economic variables like output or unemployment, even in the short run. Since individuals correctly anticipate the outcomes of such policies, they adjust their actions in a way that offsets the intended effects, leaving only nominal.

70. (A) Adaptive expectations assume people only use past information to form expectations, while rational expectations assume they use all available information.
Adaptive expectations assume that individuals form their view of the future based solely on the past performance and trends of economic variables. In contrast, the rational expectations hypothesis posits that people are forward-looking and incorporate all available information, including current government policy announcements and economic models, into their forecasts. This distinction is crucial for understanding how quickly and effectively an economy responds to change.

71. (D) The parameters of econometric models may change in response to policy changes, making policy evaluation based on historical data unreliable.
The Lucas critique transformed macroeconomic policy analysis by arguing that the historical relationships observed in economic data may change when government policies are altered. Because individuals are rational and adjust their expectations based on the current policy regime, the parameters of econometric models are not structural or invariant. Therefore, using past data to predict the effects of a new policy can be.

72. (B) (b) and (c) only
Under the rational expectations hypothesis, only unanticipated policy changes can have a temporary impact on real economic variables like output, as they take agents by surprise. Conversely, any policy that is anticipated by the public will have no real effect and will only influence nominal variables, such as the general price level. This perspective assumes that agents do not make systematic errors.

73. (C) Counting the value of intermediate goods along with the value of final goods.
Double counting is a common error in national income accounting that occurs when the value of intermediate goods is added alongside the value of the final product. Since the price of a final good already includes the costs of all components used in its production, including those components separately would artificially inflate the total gross domestic product. To avoid this, only final goods.

74. (D) Product method
The product method of measuring national income, also known as the value-added method, calculates the total output of an economy by summing the value added at each stage of production. Value added is determined by subtracting the cost of intermediate inputs from the gross value of output produced by a firm. This approach ensures that the contribution of every sector is captured accurately.

75. (D) Statement I is false but Statement II is true.
In the classical economic model, the interest rate is viewed as a real variable determined by the intersection of the supply of savings and the demand for investment. It is not determined by the money market, as classical theorists believed that money is merely a veil that does not affect real variables. Therefore, the interest rate acts as a mechanism to balance.

76. (C) Marginal Propensity to Consume (MPC).
The slope of the Keynesian consumption function represents the marginal propensity to consume, which indicates the change in

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consumption resulting from a one-unit change in disposable income. This value is mathematically expressed as the derivative of the consumption function with respect to income. It plays a vital role in determining the size of the multiplier and understanding how consumer spending responds to change.

77. (A) Their expected lifetime resources, including wealth and income.
The Life-Cycle Hypothesis states that an individual's consumption at any point in time is determined by their total expected resources over their entire life, rather than just their current income. These resources include current wealth and the present value of all future labor earnings. People are assumed to smooth their consumption over their lifetime, saving during high-income working years to support.

78. (D) The government builds a new highway as part of a public works program.
Autonomous investment refers to spending on capital goods that is independent of the current level of national income or consumer demand. A classic example is a government-funded infrastructure project, such as building a new highway, which is undertaken for public welfare or long-term growth objectives. Unlike induced investment, these projects are driven by external factors like technological change, policy decisions, or population.

79. (C) 400 crores
To find the total increase in income, the investment multiplier must be applied to the change in autonomous investment. The multiplier is calculated as the reciprocal of the marginal propensity to save. Given a marginal propensity to save of zero point two five, the multiplier value is four. Multiplying the one hundred crore investment increase by this multiplier results in a total income increase.

80. (A) P-3, Q-4, R-1, S-2
The Permanent Income Hypothesis explores the transitory and permanent aspects of income, while Baumol's inventory theory applies a square root formula to explain the transactions demand for money. The Phillips Curve illustrates the trade-off between inflation and unemployment, and Say's Law posits that supply creates its own demand. These diverse concepts represent foundational ideas in macroeconomic theory, addressing consumption, money demand, and.

81. (C) M = kPY
The Cambridge version of the Quantity Theory of Money expresses the demand for money as a function of nominal income. In the equation M equals kPY, 'M' is the quantity of money, 'P' is the price level, 'Y' is the level of real income, and 'k' represents the fraction of income that people wish to hold in the form of liquid.

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82. (A) M3
In monetary statistics, M3 is commonly referred to as broad money because it encompasses a wide range of liquid and semi-liquid assets. It includes all components of narrow money, such as currency and demand deposits, plus net time deposits with the banking system. This measure provides a comprehensive view of the total liquidity available in the economy, making it a critical indicator.

83. (C) Excess demand for money.
Any point located to the right of the LM curve represents a state of disequilibrium in the money market where the demand for money exceeds the existing supply. At the given combination of income and interest rate, the level of income is too high, or the interest rate is too low, to satisfy the public's desire for liquidity. To restore market equilibrium.

84. (A) Both A and R are true and R is the correct explanation of A.
The degree of crowding out is heavily influenced by the slope of the LM curve. When the LM curve is steep, a small increase in national income leads to a large increase in the demand for money. To maintain money market equilibrium, the interest rate must rise significantly, which sharply reduces private investment spending. Therefore, a steeper LM curve results in.

85. (C) Supply-side policies to reduce costs and increase productivity.
Supply-side policies are the most effective tools for addressing cost-push inflation, as they focus on reducing production costs and increasing overall productivity. These measures may include deregulating markets, providing incentives for

technological innovation, or improving labor skills. By shifting the aggregate supply curve to the right, these policies help lower the price level while simultaneously increasing the total output of the national economy.

86. (A) Milton Friedman
Milton Friedman was the primary economist who popularized the idea that the Phillips Curve is vertical in the long run. He argued that while a short-run trade-off between inflation and unemployment might exist due to misperceptions, this disappears as people adjust their expectations. In the long run, unemployment always returns to its natural rate, regardless of the steady rate of price inflation.

87. (D) Trough
The trough represents the lowest point of a business cycle, marking the end of a recessionary period and the beginning of an economic recovery. At this stage, economic activity, employment, and production reach their minimum levels before starting to trend upward again. It is a critical turning point that signals the transition from a period of contraction to one of expansionary activity.

88. (B) (a), (b), (c), and (e) only
Monetary policy is designed to achieve several key macroeconomic goals, including maintaining price stability and promoting sustainable economic growth. It also aims to ensure that there is an adequate flow of credit to the productive sectors of the economy and to maintain stability in the foreign exchange market. However, management of tax collection is a function of fiscal policy rather than central.

89. (B) Because people anticipate the effects of the policy and adjust their behavior, thus offsetting the intended impact on real variables.
Under the rational expectations hypothesis, anticipated policies are ineffective because people are forward-looking and use all available information to predict the outcome of government actions. When a policy change is expected, individuals and firms adjust their prices, wages, and consumption behavior in advance. This collective adjustment offsets the intended impact of the policy on real variables like output, leaving only price level.

90. (D) Both (A) and (C) are correct.
National income at factor cost can be derived using two primary methods. One way is to subtract net indirect taxes from Net National Product at market price to remove the influence of government interventions on prices. Alternatively, it can be calculated by adding net factor income from abroad to Net Domestic Product at factor cost. Both calculations yield the total income earned by residents.

91. (B) Say's Law - Demand creates its own supply
The statement that Say's Law implies demand creates its own supply is incorrect; the law actually posits that supply creates its own demand. According to this classical principle, the process of production generates sufficient income to purchase the entire output. Other pairs, such as the Keynesian focus on involuntary unemployment and the classical emphasis on full employment, correctly reflect the core macroeconomic theories.

92. (B) APC is always greater than MPC.
In the Keynesian short-run consumption function, which includes a positive autonomous consumption component, the average propensity to consume is always greater than the marginal propensity to consume. As income rises, the proportion of income spent on consumption decreases, causing the average propensity to consume to fall. However, because the marginal propensity to consume is constant and less than one, it remains below the.

93. (C) Relative Income Hypothesis
The ratchet effect is a central concept of the Relative Income Hypothesis, explaining why consumption does not fall as much as income during an economic downturn. It suggests that once households achieve a certain high level of consumption, they become accustomed to it and are reluctant to reduce their standard of living. Consequently, consumption behavior is somewhat irreversible, staying higher than predicted by.

94. (A) (a), (b), and (d) only
The Marginal Efficiency of Capital schedule shifts to the right when factors other than interest rate make investment more attractive. Key drivers include a reduction in the cost of capital

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goods, an improvement in business expectations regarding future profits, and technological advancements that enhance productivity. Conversely, an increase in corporate taxes would discourage investment and shift the curve to the left, reducing growth.

95. (C) Net exports
The foreign trade multiplier measures the impact that a change in a nation's net exports has on its total national income. It shows how an initial increase in exports or a decrease in imports triggers a series of income-generating effects throughout the economy. Similar to the investment multiplier, its magnitude depends on leakages such as the marginal propensity to save and the.

96. (B) The public is willing to hold any amount of money at a given low interest rate.
A liquidity trap occurs in an economy when interest rates are so low that the public prefers to hold cash instead of investing in bonds. At this point, the demand for money becomes perfectly elastic, meaning people are willing to hold any amount of money supplied by the central bank. As a result, monetary policy loses its ability to further lower interest.

97. (A) Central bank and the commercial banking system.
The total supply of money in a modern economy is primarily determined by the combined actions of the central bank and the commercial banking system. The central bank controls the monetary base or high-powered money through policy instruments. Commercial banks then expand this base through the process of fractional reserve banking and credit creation. While public demand for currency influences results.

98. (A) An excess demand for goods (I > S).
Any point located to the left of the IS curve indicates a state of disequilibrium in the goods market where the total demand for goods exceeds the total supply. At these combinations of income and interest rates, planned investment is greater than planned savings. This excess demand puts upward pressure on production, leading to an increase in national income as businesses.

99. (C) A rightward shift in the LM curve.
Expansionary monetary policy, such as an increase in the money supply by the central bank, is represented in the IS-LM model by a rightward shift of the LM curve. This shift indicates that at every level of income, the interest rate required for money market equilibrium is now lower. The resulting decrease in interest rates stimulates investment spending, leading to.

100. (A) Accelerating inflation.
In the long run, any attempt by the government or central bank to maintain the unemployment rate below its natural level will lead to accelerating inflation. As workers and firms realize that inflation is rising, they adjust their expectations and demand higher wages and prices, shifting the short-run Phillips curve upward. To keep unemployment low, authorities must further increase inflation, creating a spiral.

101. (D) A rise in output, income, and employment from the trough.
The recovery phase of a business cycle marks the period of economic improvement following a trough. During this stage, there is a gradual rise in national output, income, and employment levels as consumer and business confidence begins to return. This phase eventually leads into the expansion phase, where growth becomes more sustained and widespread throughout the various sectors of the national.

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102. (A) Changing the reserve requirements of banks.
Fiscal policy refers to the use of government spending, taxation, and debt management to influence the overall economy. Tools like changing tax rates or government expenditure levels are primary instruments used by fiscal authorities. Conversely, changing the reserve requirements of commercial banks is a tool of monetary policy, which is managed by the central bank to control the money supply and.

103. (C) Random and not predictable.
The Rational Expectations Hypothesis implies that individuals do not make systematic or predictable errors when forecasting economic variables. Since agents use all available information, including economic models and current policies, their expectations are correct on average. Any errors that do occur are purely

random and result from unforeseen shocks. This means that policymakers cannot consistently trick the public into changing their.

104. (B) A pension paid to a retired military officer.
A pension paid to a retired individual is considered a transfer payment because it does not correspond to any current productive activity or contribution to the gross domestic product. Since no new goods or services are produced in exchange for this payment, it is excluded from the calculation of national income to avoid overcounting. Unlike salaries for active workers, pensions represent a redistribution.

105. (A) The flexibility of the interest rate which equates savings and investment.
In the classical economic model, the interest rate acts as the primary mechanism that ensures Say's Law holds true, even in a money-based economy. It is assumed that any income not spent on consumption will be saved and then channeled into investment through the credit market. The perfect flexibility of the interest rate ensures that planned savings always equal planned investment.

106. (C) Statement I is true but Statement II is false.
The relationship between the marginal propensities to consume and save is fundamental, as any additional income must be either spent or saved, making their sum exactly equal to one. However, the same rule does not apply to the average propensities. While the sum of the average propensity to consume and the average propensity to save is also one, it cannot.

107. (A) P-3, Q-4, R-1, S-2
Consumption theories were developed by several key economists to explain household behavior. J.M. Keynes proposed the Absolute Income Hypothesis, while James Duesenberry introduced the Relative Income Hypothesis. Milton Friedman is associated with the Permanent Income Hypothesis, and Franco Modigliani developed the Life-Cycle Hypothesis. Each of these theories offers a different perspective on how income and wealth determine the level of.

108. (B) Induced investment to a change in income.
The accelerator coefficient represents the numerical relationship between the change in national income and the resulting change in induced investment. It measures the amount of additional capital investment required to produce an additional unit of output. A higher coefficient indicates that even small changes in consumer demand can trigger significant fluctuations in investment spending, contributing to the volatility of the business.

109. (C) A function of both income and the interest rate.
Baumol's inventory-theoretic approach treats the demand for money like an inventory problem, where individuals balance the cost of holding cash against the cost of converting other assets into money. This model demonstrates that the transactions demand for money is not just a function of the level of income, but is also negatively related to the prevailing rate of market interest.

110. (A) Selling government securities to commercial banks and the public.
An open market sale occurs when the central bank sells government securities to commercial banks and the public. This action withdraws liquidity from the banking system, as buyers pay for these securities with their bank deposits or currency. As a result, the reserves of commercial banks decrease, reducing their ability to create credit and leading to a contraction in money.

111. (D) Simultaneous equilibrium in the goods market and the money market.
The point where the IS and LM curves intersect represents the unique combination of the interest rate and the level of national income that ensures simultaneous equilibrium in both the goods market and the money market. At this equilibrium, planned investment equals planned saving, and the demand for money equals the fixed money supply. This intersection determines the short-run equilibrium.

112. (A) Both A and R are true and R is the correct explanation of A.
A sharp increase in oil prices represents an adverse supply shock that can lead to stagflation. Such a shock increases the production costs for firms across the economy, shifting the aggregate

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supply curve to the left. This shift results in a higher general price level, which is inflation, and a lower level of national output and employment, which is stagnation.

113. (C) The interaction of the multiplier and a non-linear accelerator.

J.R. Hicks's theory of the business cycle is based on the dynamic interaction between the Keynesian investment multiplier and a non-linear accelerator principle. He argued that an initial change in investment triggers income changes, which then induce further fluctuations in investment. To explain why the cycle has limits, Hicks introduced the concepts of an autonomous investment floor and full.

114. (D) Borrowing from the central bank (printing new money).

A government budget deficit is most likely to be inflationary if it is financed by borrowing from the central bank, a process often called deficit monetization. This method increases the high-powered money in the economy, which leads to a multiple expansion of the total money supply. As the increased money supply boosts aggregate demand without a corresponding increase in output.

115. (A) It assumes economic agents have too much information and are too sophisticated in their processing of it.

A major critique of the Rational Expectations Hypothesis is that it imposes unrealistic requirements on economic agents. It assumes that individuals possess complete and accurate information about the economy and the ability to process complex data using sophisticated economic models. Critics argue that information is costly and that many people rely on simpler rules of thumb or past experiences instead of.

116. (C) (a), (b), (c), and (d) only

Measuring national income involves several significant challenges, including the risk of double counting intermediate and final goods. Other problems include the exclusion of non-marketed services, such as housework, and the difficulty of capturing activity in the underground or black economy. Furthermore, inadequate and unreliable data collection can lead to inaccurate estimates. While leisure is valuable, its exclusion is a standard.

117. (A) Real and nominal variables are determined separately in the classical model.

The classical dichotomy is the idea that real and nominal variables can be analyzed independently in the classical macroeconomic system. According to this view, real variables like output and employment are determined by real factors like labor and technology, while the price level is determined solely by the quantity of money. This implies that changes in the money supply only affect prices.

118. (C) A deficiency of aggregate demand.

In Keynesian economic theory, involuntary unemployment occurs when individuals are willing and able to work at the prevailing wage rate but cannot find jobs. Keynes attributed this phenomenon to a deficiency in total aggregate demand within the economy. If consumers and businesses do not spend enough to purchase the full-employment level of output, firms will reduce production and lay off workers.

119. (B) $S = -50 + 0.2Yd$

The savings function is derived directly from the consumption function, as income that is not consumed is saved. In the given equation, fifty is the autonomous consumption, which implies fifty units of dissaving when income is zero. The marginal propensity to consume is zero point eight, meaning the marginal propensity to save is zero point two. Combining these elements results.

120. (A) 4, 2, 3, 1

The development of multiplier and accelerator concepts occurred over several decades. The employment multiplier was first introduced by R.F. Kahn in the early nineteen thirties. Shortly after, J.M. Keynes developed the investment multiplier in nineteen thirty-six. The accelerator principle gained prominence thereafter, and the super-multiplier, which combines both effects, was later formulated by J.R. Hicks to explain complex economic fluctuations and cycles.

121. (B) The level of income.

According to Keynesian theory, the transactions demand for money is the amount of cash

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people hold to facilitate their daily purchases of goods and services. This demand is primarily determined by the level of national income, as higher income levels lead to more frequent and larger transactions. While interest rates may have a minor influence, the level of economic activity remains.

122. (A) Lending capacity of commercial banks increases.

The Statutory Liquidity Ratio is the percentage of deposits that commercial banks must maintain in liquid assets like gold or government securities. When the central bank lowers this ratio, it releases more funds for banks to use for lending to the public. This increase in the lending capacity of commercial banks helps boost the total money supply and stimulates economic activity through.

123. (B) A lower interest rate stimulates investment, which leads to a higher equilibrium level of income.

The IS curve has a negative slope because it reflects the inverse relationship between the interest rate and the level of aggregate demand. A decrease in the interest rate reduces the cost of borrowing, which stimulates higher levels of planned investment spending. Through the multiplier effect, this increased investment leads to a higher equilibrium level of national income in the goods market.

124. (A) Actual aggregate demand exceeds the aggregate supply at the full employment level of income.

An inflationary gap occurs when the total planned spending in an economy is greater than the total value of goods and services that can be produced at full employment. Since the economy is already at its capacity, this excess demand cannot be met by increasing production. Instead, it puts upward pressure on prices, leading to a rise in the general price level.

125. (D) There are widespread expectations of a downturn.

The peak of a business cycle is the highest point of economic activity, where growth is at its maximum and unemployment is at its lowest. During this phase, the economy is operating at or near full capacity. However, the statement that there are widespread expectations of a downturn is usually incorrect, as optimism is typically at its highest level just before the peak.

126. (B) Moral Suasion.

Qualitative or selective credit control measures are tools used by the central bank to influence the direction or purpose of credit rather than its total volume. Moral suasion is a prime example, where the central bank uses informal pressure or persuasion to encourage commercial banks to follow certain lending guidelines. Unlike quantitative tools like the bank rate, these measures target specific areas.

127. (C) Rational expectations.

The Lucas critique is a fundamental challenge to traditional macroeconomic policy evaluation, and it is built upon the assumption of rational expectations. Robert Lucas argued that since economic agents are rational and adjust their behavior based on their understanding of government policy, the historical relationships observed in data are not stable. Therefore, policymakers cannot assume that the parameters of their models will.

128. (B) GNP adjusted for the depreciation of natural capital and environmental degradation.

Green Gross National Product is an alternative measure of economic progress that attempts to account for the environmental costs of production. It is calculated by subtracting the value of natural resource depletion and environmental degradation from the standard GNP. This approach provides a more sustainable view of economic growth by recognizing that the consumption of natural capital is a cost to the nation.

129. (A) An increase in aggregate demand will only increase the price level, not output.

In the classical macroeconomic model, the aggregate supply curve is perfectly vertical at the full employment level of output. This implies that the economy is always operating at its maximum capacity determined by real factors like labor and technology. Consequently, any increase in aggregate demand will not lead to higher production, but will instead be entirely reflected in a higher general price.

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130. (A) The short-run MPC is less than the long-run MPC.

Milton Friedman proposed the Permanent Income Hypothesis to resolve the apparent contradiction between short-run and long-run consumption data. While the short-run data showed a declining average propensity to consume, long-run data indicated a constant proportion of income spent. Friedman argued that consumption depends on permanent income, and that people smooth their spending over time, resulting in a lower marginal propensity to consume.

131. (B) (a), (b), and (d) only

Induced investment is driven by factors that change the expected profitability or demand for a firm's output. It is likely to increase when national income growth accelerates, creating a need for more production capacity. Furthermore, lower interest rates reduce borrowing costs, and government tax incentives improve after-tax returns. These positive changes encourage businesses to expand their capital stock and invest in.

132. (C) $400 million

In a closed economy, the total increase in income resulting from a change in government spending is determined by the spending multiplier. The multiplier is calculated as one divided by one minus the marginal propensity to consume. With an MPC of zero point seven five, the multiplier value is four. Therefore, a one hundred million dollar increase in government spending leads to a.

133. (B) Individuals hold a diversified portfolio of both money and bonds.

James Tobin's portfolio balance approach differs from the simple Keynesian model by assuming that individuals are risk-averse. Instead of holding only money or only bonds based on their expectations of future interest rates, people choose to hold a diversified portfolio of both assets. This behavior allows them to balance the need for liquidity against the potential for earning interest while.

134. (A) $M = H \cdot \frac{1 + cr}{cr + rr}$

The relationship between high-powered money and the total money supply is determined by the money multiplier formula. This formula incorporates the currency-deposit ratio, representing the public's preference for cash, and the reserve-deposit ratio, representing the banks' reserve requirements. In this equation, the money supply is the product of the monetary base and a multiplier that reflects the fractional reserve banking.

135. (C) The LM curve shifts left, income falls and interest rate rises.

A contractionary monetary policy, such as a reduction in the money supply, is represented by a leftward shift of the LM curve. This shift indicates that for any level of income, the interest rate must rise to equilibrate the money market. The higher interest rates discourage investment spending, which then leads to a decrease in the equilibrium level of national income.

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136. (A) P-3, Q-2, R-4, S-1

Macroeconomic terms describe various states and relationships within the economy. Stagflation involves high inflation and high unemployment, while NAIRU is the unemployment rate where inflation remains stable. A deflationary gap exists when aggregate supply exceeds demand at full employment. Finally, the Phillips Curve depicts the inverse relationship between wage inflation and unemployment. Understanding these concepts is essential for analyzing the complex dynamics.

137. (D) Pigou's psychological theory.

Pigou's psychological theory of business cycles emphasizes the role of subjective factors in driving economic fluctuations. He argued that the economy is subject to waves of optimism and pessimism among entrepreneurs and investors. During periods of optimism, investment and activity expand beyond what is justified by fundamentals. Conversely, waves of pessimism lead to a contraction in spending and investment, triggering.

138. (B) Fiscal Policy

Deficit financing is a major instrument of fiscal policy where the government spends more than it receives in tax revenue. To cover this budget gap, the government may borrow from the public or

the central bank. This policy is often used during recessions to stimulate aggregate demand and promote economic growth. However, if used excessively, it can lead to higher public.

139. (D) Systematic and anticipated policies.
The policy ineffectiveness proposition, a key tenet of the Rational Expectations school, states that government policies cannot influence real economic variables like output if they are predictable. Since rational agents use all available information to anticipate these systematic policy changes, they adjust their behavior in advance, neutralizing the impact. Therefore, only unanticipated or random policy shocks can have a temporary effect.

140. (A) Personal Income - Direct Personal Taxes.
Personal disposable income is the amount of money that households actually have available for consumption or saving after all financial obligations to the government are met. It is calculated by subtracting direct personal taxes, such as income tax, and other miscellaneous fees from total personal income. This measure is a critical determinant of consumer spending behavior and overall demand in the national.

141. (A) Classical model of employment.
The assumption of perfect wage and price flexibility is a central pillar of the classical model of employment. Classical theorists argued that if there is a surplus of labor, wages will naturally fall until the market clears and full employment is restored. Similarly, any imbalance in the product market is corrected through price adjustments. This flexibility ensures that the economy is.

142. (C) Statement I is true but Statement II is false.
The Relative Income Hypothesis suggests that consumption behavior is influenced by an individual's position in the social income distribution and is somewhat irreversible over time. This irreversibility, known as the ratchet effect, means that it is much harder for households to reduce their consumption standards when income falls than it is to increase them when income rises. Therefore, the second statement is.

143. (A) Both A and R are true and R is the correct explanation of A.
The investment demand curve exhibits a negative slope because of the relationship between borrowing costs and project profitability. A lower interest rate reduces financing expenses, making the present value of future returns exceed the cost for more projects. As rates fall, more investments satisfy the criteria where the marginal efficiency of capital is greater than the interest rate. This stimulates higher capital spending.

144. (B) There is no excess capacity in the capital goods industries.
The working of the accelerator principle relies on the assumption that firms are already operating at or near their full capacity. If there were excess capacity in the capital goods industries, firms could simply increase production using existing machinery without needing to invest in new equipment when demand rises. Therefore, the principle only becomes active when new investment is necessary to.

145. (A) The cost of converting interest-bearing assets into cash.
In the Baumol-Tobin model of cash management, the brokerage fee represents the various costs associated with liquidating interest-bearing assets, such as bonds, to obtain cash for transactions. These costs may include actual financial fees, as well as the time and effort required to make the transfer. Individuals aim to minimize the sum of these brokerage fees and the interest income.

146. (D) Deposits with post office savings banks.
M3 is a broad measure of the money supply that includes currency with the public, demand deposits with the banking system, and net time deposits with banks. While it captures most forms of liquidity, it specifically excludes deposits held with post office savings organizations. These post office deposits are included in other measures like M2 or M4, but not in the standard.

147. (D) Both (A) and (B) are correct.
A flatter IS curve indicates that the components of aggregate demand, particularly investment, are highly sensitive to changes in the interest rate. In this situation, even a small decrease

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in the interest rate leads to a large increase in investment and national income. Consequently, fiscal policy is also more effective because any change in government spending will have a larger impact.

148. (A) (a) and (d) only
The long-run Phillips curve shifts to the right when the natural rate of unemployment increases due to structural or frictional factors. For example, raising the minimum wage can make it harder for low-skilled workers to find jobs, and increasing unemployment benefits can reduce the incentive to search for work quickly. Conversely, factors like improved job training or better information would typically shift.

149. (A) The full employment ceiling and the autonomous investment floor.
In Hicks's model of the trade cycle, the fluctuations in economic activity are contained within two physical limits. The peak of the cycle is determined by the full employment ceiling, which prevents further expansion of real output. The trough is determined by the autonomous investment floor, which ensures that investment does not fall to zero and provides a base for recovery.

150. (B) A progressive tax structure and targeted public expenditure.
Fiscal policy plays a vital role in redistributing income and wealth within a society to ensure greater social equity. This is primarily achieved through a progressive tax system, where higher-income individuals pay a larger percentage of their earnings in taxes. The resulting revenue is then used for targeted public expenditure on social welfare programs, education, and healthcare, which benefits the lower-income groups.

151. (A) It can increase the volatility of output if policymakers have less information than private agents or make mistakes.
Critics of activist stabilization policy under the rational expectations framework argue that government intervention can be counterproductive. They suggest that if policymakers lack perfect information or miscalculate the timing of their actions, they may inadvertently increase the volatility of the economy. Since private agents are already adjusting to their own expectations, unpredictable government policy can introduce unnecessary noise and errors into the national.

152. (B) Subtract net indirect taxes.
To transition from Gross Domestic Product at market prices to Gross Domestic Product at factor cost, one must subtract net indirect taxes from the market value. Net indirect taxes represent the difference between indirect taxes collected by the government and subsidies provided to producers. This adjustment removes the distortionary effects of government policy on prices, reflecting the actual income received by production.

153. (A) Money illusion on the part of workers.
Keynes argued that workers often suffer from money illusion, meaning they focus on their nominal wages rather than their real purchasing power. Consequently, they are much more resistant to a cut in their money wages than they are to an increase in the price level that reduces their real wages. This psychological factor contributes to the downward stickiness of wages in the.

154. (A) APC falls as income rises.
In the standard Keynesian consumption function, the presence of a positive autonomous consumption component ensures that the average propensity to consume is not constant. As national income increases, this fixed autonomous part becomes a smaller fraction of the total income. Consequently, the average propensity to consume declines as income rises, even if the marginal propensity to consume remains stable and less than.

155. (A) (a), (b), and (c) only
Autonomous investment is driven by external factors like technological innovation, while induced investment responds to changes in the rate of income growth. The Marginal Efficiency of Investment schedule is typically steeper than the Marginal Efficiency of Capital schedule because an increase in the aggregate volume of investment can push up the supply price of capital goods. These concepts together explain the complex determinants.

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156. (B) Keynesian underemployment economy.
The operation of the investment multiplier relies on the existence of unemployed resources and excess capacity in the economy. In a Keynesian underemployment framework, an initial increase in spending can lead to a multiple expansion of output and income because firms can hire more workers and increase production without triggering immediate inflation. In a classical full-employment world, such an increase would merely.

157. (C) People want to have a buffer to meet unforeseen contingencies.
The precautionary motive for holding money arises from the inherent uncertainty of life and economic activity. Individuals and firms choose to keep a portion of their wealth in liquid cash as a safety net to cover unexpected expenses or emergencies, such as medical bills or sudden business repairs. The amount held for this purpose typically increases with the level of income and.

158. (B) 5
The simple money multiplier is calculated as the reciprocal of the required reserve ratio when the public does not hold any currency. With a required reserve ratio of twenty percent, or zero point two, the multiplier value is five. This indicates that for every unit of new reserves injected into the banking system, the total money supply can expand by five times the.

159. (D) Vertical.
In the IS-LM framework, the classical range refers to a situation where the demand for money is completely insensitive to changes in the interest rate. In this case, the LM curve becomes perfectly vertical. This implies that the quantity of money uniquely determines the level of national income. Consequently, monetary policy is highly effective in this range, while fiscal policy has.

160. (A) 4, 1, 3, 2
Macroeconomic thought has evolved through several key stages. It began with the classical ideas represented by Say's Law. Following the Great Depression, Keynes introduced the General Theory and the principle of effective demand. Later, in response to stagflation, the expectations-augmented Phillips Curve emerged. Finally, the Rational Expectations school developed the Policy Ineffectiveness Proposition. This sequence reflects the ongoing development of economic analysis.

161. (C) Progressive income taxes that naturally yield more revenue as incomes rise.
Progressive income taxes serve as an automatic stabilizer because they naturally adjust the level of aggregate demand without any government action. During an economic expansion, as individual incomes rise, they move into higher tax brackets and pay a larger portion of their earnings to the government. This automatically slows down the growth of disposable income and spending, helping to prevent the economy.

162. (A) Increasing the government budget deficit during recessions and increasing the surplus during booms.
Automatic stabilizers work by naturally adjusting the government's budget balance in a counter-cyclical manner. During a recession, tax revenues fall and spending on social transfers like unemployment benefits rises, which automatically increases the budget deficit and supports demand. In a boom, tax revenues rise and transfer spending falls, creating a surplus that helps cool the economy. These mechanisms reduce the severity of fluctuations.

163. (C) Are the same as the predictions of the relevant economic theory.
The core idea of the Rational Expectations Hypothesis is that individuals are forward-looking and use all available information efficiently. Therefore, their expectations about economic variables are, on average, consistent with the predictions of the best available economic models. While they may make random errors due to unforeseen events, they do not make systematic mistakes. This implies that people cannot be consistently fooled.

164. (A) Nominal GDP to Real GDP.
The GDP deflator is a comprehensive measure of inflation that tracks the changes in the price level of all final goods and services produced within an economy. It is calculated as the ratio of nominal Gross Domestic Product to real Gross Domestic Product. By comparing these

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two measures, economists can determine how much of the growth in nominal output is due to.

165. (A) The price level will double and real output will remain unchanged.
According to the classical quantity theory of money, there is a direct and proportional relationship between the money supply and the general price level. This view is based on the assumption that the velocity of money and real output are constant in the long run. Therefore, if the quantity of money is doubled, the price level will also double, while real.

166. (D) Permanent Income Hypothesis
The concept of transitory income is a fundamental part of Milton Friedman's Permanent Income Hypothesis. It refers to the temporary and unexpected fluctuations in an individual's income, such as a one-time bonus or a sudden loss. The theory posits that consumption decisions are based on permanent income, while transitory income is primarily saved or used to adjust wealth, explaining why short-run.

167. (B) P-2, Q-4, R-3, S-1
Different macroeconomic concepts have distinct implications for economic performance and the effectiveness of government policies. Crowding out describes how fiscal expansion can inadvertently reduce private investment by raising interest rates. The liquidity trap suggests that monetary policy becomes ineffective when money demand is perfectly elastic at very low rates. Policy ineffectiveness implies that anticipated measures do not change real output levels. The ratchet effect explains why.

168. (A) Savings, taxes, and imports.
Leakages from the circular flow of income are those portions of national income that are not spent on domestically produced goods and services. Savings represent income put aside for future use, taxes are funds collected by the government, and imports are payments for foreign products. These leakages reduce the total amount of money circulating within the domestic economy, thereby decreasing the size.

169. (A) Keynes included the speculative motive dependent on the interest rate.
The fundamental difference between the Keynesian and classical views on money demand lies in the inclusion of the speculative motive. While classical economists focused on money as a medium of exchange for transactions, Keynes argued that people also hold money as an asset. He introduced the idea that the demand for these liquid balances is sensitive to changes in the rate.

170. (B) Accepting deposits from the general public.
A central bank performs several critical functions, such as acting as the lender of last resort to commercial banks, controlling the money supply, and serving as the government's banker. However, unlike commercial banks, a central bank does not engage in retail banking and does not accept deposits from or provide loans directly to the general public. Its primary focus is on.

171. (A) shift right; shift left
A tax cut increases the disposable income of households, which boosts consumption spending and shifts the IS curve to the right. Conversely, a decrease in the money supply by the central bank reduces liquidity and shifts the LM curve to the left. These changes reflect the interaction of expansionary fiscal and contractionary monetary policies in determining the new equilibrium level of income.

172. (A) Both A and R are true and R is the correct explanation of A.
The original short-run Phillips curve, which showed a stable trade-off between inflation and unemployment, broke down during the nineteen seventies. This period was characterized by large adverse supply shocks, most notably the sharp increases in oil prices. These shocks shifted the aggregate supply curve to the left, creating stagflation. The original curve could not explain the simultaneous rise in both inflation.

173. (B) Varies in length and intensity.
A business cycle refers to the periodic fluctuations in economic activity, including phases of expansion and contraction. While these cycles are recurring, they do not follow a fixed or predictable schedule. The duration of each phase and the overall cycle, as well as the intensity of the booms and busts, varies

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significantly over time depending on the underlying economic conditions and.

174. (C) An increase in government spending and a decrease in taxes.
Expansionary fiscal policy is designed to stimulate economic activity by increasing the total aggregate demand in the economy. This is typically achieved through an increase in government expenditure on goods and services or a reduction in the tax burden on households and businesses. By putting more money into the hands of consumers and firms, these measures aim to boost production and.

175. (B) The Lucas Critique.
The proposition that the effectiveness of government policy depends on how people's expectations adapt to those policies is known as the Lucas Critique. Robert Lucas argued that since individuals are rational and forward-looking, they will anticipate the effects of policy changes and adjust their behavior accordingly. This implies that historical relationships between economic variables cannot be used to predict the.

176. (B) (d) and (e) only
To move from national income to personal income, several adjustments must be made to account for income earned but not received and income received but not earned. For example, government transfer payments, such as pensions, are added because they are receipts for households. Similarly, net interest payments by households can be included. Conversely, corporate taxes and undistributed profits are subtracted as.

177. (D) All of the above
In the simple Keynesian model of a closed economy, equilibrium is achieved when the total amount produced is equal to the total amount that people plan to spend. This condition is satisfied when national income equals the sum of consumption and investment. At this point, the leakages from the circular flow, in the form of savings, must also exactly equal the.

178. (C) Retirement.
According to the Life-Cycle Hypothesis, individuals aim to maintain a stable level of consumption throughout their lifetime by smoothing their income. During their working years, people typically earn more than they consume and save for the future. However, during retirement, when labor income falls significantly, individuals must draw down their accumulated savings to support their consumption, resulting in a period.

179. (D) All of the above are correct.
The Marginal Efficiency of Capital relates to the expected rate of return on the entire stock of capital, while the Marginal Efficiency of Investment focuses on the current rate of investment spending. The MEI curve is generally steeper than the MEC curve because an increase in the aggregate demand for investment goods can drive up their supply prices, reducing the profitability.

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180. (A) It assumes a fixed capital-output ratio.
A major criticism of the accelerator model of investment is its assumption of a fixed and constant capital-output ratio. In reality, this ratio is likely to vary due to changes in technology, relative prices of labor and capital, and the degree of capacity utilization. Critics argue that the model is too rigid and fails to account for the complex decision-making process.

181. (C) V and T are assumed to be constant or determined exogenously.
Fisher's Equation of Exchange is a simple accounting identity stating that the total value of money expenditures must equal the total value of goods sold. It transforms into a testable theory of the price level only when specific assumptions are made about the other variables. Specifically, if the velocity of money and the volume of transactions are assumed to be constant.

182. (A) Assets which are not money but can be converted into money with little delay or loss of value.
Near money refers to highly liquid financial assets that are not directly used as a medium of exchange but can be quickly and easily converted into cash. Examples include savings accounts, time deposits, and short-term government securities. While these assets perform the store of value function of money, they must be converted

before they can be used for transactions, making them.

183. (A) Vertical.
In the IS-LM framework, the IS curve represents equilibrium in the goods market. If planned investment becomes completely insensitive to changes in the interest rate, the IS curve becomes perfectly vertical. This implies that no matter how much the interest rate falls or rises, the level of aggregate demand and national income remains unchanged. Under these conditions, monetary policy loses its.

184. (B) Increase the money supply.
When the government increases its spending, the IS curve shifts to the right, which leads to a higher level of national income and puts upward pressure on the interest rate. If the central bank wants to prevent the interest rate from rising, it must increase the money supply, shifting the LM curve to the right as well. This coordinated action accommodates.

185. (A) For any given level of inflation, the rate of unemployment is now higher.
A rightward shift of the short-run Phillips curve indicates a worsening of the trade-off between inflation and unemployment. It means that for any specific rate of inflation, the economy now experiences a higher level of unemployment than before. Such a shift can be caused by various factors, including an increase in inflationary expectations among workers or a negative supply-side shock that.

186. (C) Schumpeter's theory
Joseph Schumpeter's theory of economic development and business cycles is centered on the concept of creative destruction. He argued that the introduction of radical innovations by entrepreneurs disrupts the existing economic structure, leading to a wave of growth and investment. However, this process also renders old technologies and business models obsolete. This continuous cycle of innovation and destruction drives the.

187. (B) Action lag or implementation lag.
The effectiveness of stabilization policy can be hampered by various time lags. The action lag, also known as the implementation lag, is the time that elapses between the moment policymakers recognize an economic problem and the moment the actual policy change is put into effect. For fiscal policy, this lag can be quite long due to the need for legislative debate.

188. (B) (a), (b), and (c) only
Critics of the Rational Expectations Hypothesis argue that its assumptions are too stringent for the real world. They point out that information is often costly to acquire and is not distributed equally among all economic agents. Furthermore, individuals may not always act rationally and may rely on simpler decision-making rules. Additionally, the existence of long-term contracts can prevent markets from adjusting.

189. (B) The sale of flour to a bakery.
To avoid the problem of double counting in national income measurement, economists only include the value of final goods and services produced for end users. Flour sold to a bakery is considered an intermediate good because it is used as an input to produce another product, which is bread. The value of the flour is already included in the final price.

190. (C) Keynesian economics
The concept of involuntary unemployment is a core component of Keynesian economic analysis. It refers to a situation where people are willing and able to work at the current wage rate but remain unemployed because there is not enough aggregate demand to support full employment. This differs from the classical view, which argued that unemployment is always voluntary or caused by.

191. (A) Both Statement I and Statement II are true.
The Relative Income Hypothesis explores the idea that consumption behavior is influenced by social comparisons and past income levels, leading to the irreversible ratchet effect. Similarly, the Permanent Income Hypothesis argues that individuals base their spending on their expected long-term average income rather than transitory changes. Both theories provide valuable insights into why consumer spending remains relatively stable despite fluctuations.

192. (A) P-3, Q-2, R-1, S-4

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Business cycle theories have been developed by several prominent economists, each emphasizing different primary causes. Schumpeter focused on the role of innovations, while Keynes emphasized fluctuations in the marginal efficiency of capital. Hicks developed a model based on the interaction of the multiplier and accelerator with floors and ceilings. Samuelson used a similar mathematical framework to show how these interactions generate cycles.

193. (A) 1 / (1 - MPC)
The simple investment multiplier represents the multiple by which national income increases in response to an initial increase in autonomous investment. It is calculated using the formula one divided by the difference between one and the marginal propensity to consume. This value shows how an initial injection of spending circulates through the economy, generating further rounds of income and consumption until leakages.

194. (B) The price level will fall.
In the Cambridge cash-balance approach, the price level is determined by the demand for and supply of money. If individuals decide to hold a larger fraction of their income in the form of liquid cash, the demand for money increases. Given a constant money supply, this will lead to a decrease in spending on goods and services, resulting in a.

195. (A) A change in the Bank Rate typically signals the central bank's policy stance and influences other rates.
The Bank Rate is a key policy instrument used by the central bank to signal its monetary policy direction. When the central bank changes the Bank Rate, it influences the cost of borrowing for commercial banks, which then adjust their own lending and deposit rates. This transmission mechanism ensures that changes in the Bank Rate affect the overall level of interest.

196. (C) A leftward shift of the LM curve.
An increase in the transaction demand for money, which might be caused by an increase in the frequency of payments or a change in financial habits, is represented by a leftward shift of the LM curve. This shift indicates that for any given level of national income, the interest rate must rise to equilibrate the money market. The increased desire for liquidity.

197. (C) A true but R is false.
In the vertical classical range of the LM curve, monetary policy is indeed highly effective because any change in the money supply has a maximum impact on the level of national income. However, the reason provided is incorrect. In this range, a change in the money supply requires a large change in the interest rate to restore equilibrium, which then leads to.

198. (B) Friedman and Phelps.
The concept of the natural rate of unemployment was independently developed and popularized by economists Milton Friedman and Edmund Phelps. They argued that there is no long-run trade-off between inflation and unemployment, and that the economy always tends toward a specific unemployment level determined by structural and frictional factors. This idea challenged the traditional Phillips Curve and transformed modern macroeconomic policy analysis.

199. (C) A mix of expansionary fiscal and contractionary monetary effects.
When the government increases its expenditure and finances it by borrowing from the public, it creates two opposing effects. The increase in spending is an expansionary fiscal measure that boosts aggregate demand. However, the resulting increase in the demand for loanable funds can push up interest rates, which is a contractionary monetary effect that may crowd out some private investment spending.

200. (B) Only anticipated stabilization policies are ineffective in influencing real variables like output and employment.
The policy ineffectiveness proposition of the New Classical School argues that systematic and predictable government policies cannot influence real economic variables. Because rational agents correctly anticipate the effects of these policies, they adjust their behavior in a way that offsets the intended impact. Consequently, only unanticipated or random policy changes can have a temporary effect on output and employment, as they.

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201. (B) Domestic Income.
Net Domestic Product at factor cost is the total income earned by the factors of production within the geographical boundaries of a country. It is calculated by subtracting depreciation and net indirect taxes from Gross Domestic Product at market prices. This measure is commonly referred to as domestic income because it excludes income earned by residents from their activities in other countries.

202. (A) The equilibrium level of income and employment.
In the Keynesian macroeconomic framework, the intersection of the aggregate demand and aggregate supply curves determines the equilibrium level of national income and employment. This equilibrium point represents the level of output where the total amount produced is exactly equal to the total amount that buyers plan to spend. It is possible for this equilibrium to occur at a level below.

203. (C) Relative Income Hypothesis
The Relative Income Hypothesis is characterized by two distinct psychological effects on consumption. The demonstration effect suggests that individuals' spending is influenced by the consumption of their social peers. The ratchet effect posits that consumption is irreversible in the short run because households find it difficult to reduce their standard of living when income falls. Together, these effects explain why spending.

204. (A) (a), (b), and (c) only
A leftward shift of the IS curve is caused by any factor that reduces total aggregate demand at every level of the interest rate. Key examples include a decrease in government purchases, an increase in taxes that reduces disposable income, or a spontaneous decline in business investment. These contractionary changes mean that a lower level of national income is now required for.

205. (A) The induced effect of investment via the accelerator.
The super-multiplier is a more comprehensive measure of economic change than the simple Keynesian multiplier. It accounts for the fact that an initial increase in spending not only leads to more consumption but also induces additional investment through the accelerator principle. By incorporating these feedback effects between income and investment, the super-multiplier shows a much larger total impact on national income.

206. (B) Speculative motive
According to Keynesian liquidity preference theory, the speculative motive for holding money is the only one that is significantly influenced by the market rate of interest. This motive arises from the uncertainty regarding future interest rates and bond prices. When interest rates are low, the opportunity cost of holding cash is small, and people expect rates to rise, leading to a.

207. (C) Changes in H can lead to a multiple change in the total money supply.
High-powered money is called so because it serves as the foundation for the entire money supply in an economy. Since commercial banks are only required to hold a fraction of their deposits as reserves, a single unit of high-powered money can support multiple units of bank deposits through the credit creation process. Therefore, even small changes in the monetary base results.

208. (A) increases; higher
The LM curve has a positive slope because it represents the relationship between income and interest rates in the money market. As national income increases, the volume of transactions grows, which leads to an increase in the demand for money. Given a fixed money supply, the interest rate must rise to reduce the speculative demand for cash and restore equilibrium in the.

209. (C) The occurrence of adverse supply shocks and the role of inflationary expectations.
The traditional Phillips Curve relationship collapsed in the nineteen seventies primarily because of the emergence of stagflation. This phenomenon was triggered by large adverse supply shocks, particularly the oil price spikes, which increased costs and prices while reducing output. Furthermore, the role of inflationary expectations became more prominent, as workers and firms began to incorporate anticipated inflation into their contracts.

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210. (B) The marginal efficiency of capital, driven by waves of optimism and pessimism.
In Keynes's theory, business cycles are largely driven by the inherent instability of private investment. He argued that investment decisions depend on the marginal efficiency of capital, which is the expected rate of return on new projects. Since these expectations are based on uncertain future events, they are prone to sudden shifts caused by waves of optimism or pessimism among entrepreneurs.

211. (D) All of the above.
The effectiveness of macroeconomic stabilization policy is often limited by various types of policy lags. The data lag refers to the time needed to collect economic information, while the recognition lag is the time taken to identify a problem. The effect lag is the time it takes for a policy, once implemented, to actually influence the economy. These combined delays.

212. (A) Do not make systematic forecasting errors.
A central tenet of the Rational Expectations Hypothesis is that economic agents are forward-looking and utilize all available information efficiently. This implies that while people can still make random errors due to unforeseen events, they do not make systematic or predictable mistakes in their forecasts. Because agents understand how the economy works, they correctly anticipate the consequences of systematic government policies.

213. (C) Value of final goods and services only.
To avoid the problem of double counting in national income estimation, it is essential to include only the value of final goods and services produced for consumption or investment. The value of intermediate goods, which are used as inputs in the production of other goods, is already reflected in the final price of those products. Including them separately would lead to an.

214. (C) Full employment.
The classical theory of employment is built on the belief that a free-market economy is self-regulating and always tends toward a state of full employment. This view is based on the assumption that wages and prices are perfectly flexible. If there is any unemployment, wages will fall until all workers are hired. Therefore, any unemployment that exists is considered to be.

215. (A) Be almost entirely saved.
According to the Permanent Income Hypothesis, individuals base their consumption on their long-term expected income rather than short-term fluctuations. A one-time bonus is considered transitory income, which does not significantly change an individual's permanent income level. Therefore, most of this extra money will be saved rather than consumed, as the individual aims to smooth their consumption over their entire lifetime.

216. (A) (a) and (c) only
In the most basic Keynesian multiplier model for a closed economy, the size of the multiplier is determined entirely by how much of each additional unit of income is spent on consumption. This relationship is captured by the marginal propensity to consume. Since any income not consumed is saved, the multiplier value can also be expressed in terms of the marginal propensity.

217. (B) Fall.
In the Keynesian liquidity preference framework, the interest rate is determined by the equilibrium between the demand for and supply of money. If the central bank increases the money supply, there will be an excess supply of money at the initial interest rate. Individuals will use this extra cash to buy bonds, pushing up bond prices and causing the market interest.

218. (B) Decrease.
The money multiplier represents the relationship between the monetary base and the total money supply. An increase in the currency-deposit ratio means that the public chooses to hold a larger portion of their money in cash rather than in bank deposits. This reduces the amount of reserves available to the banking system for credit creation. As a result, the money multiplier.

219. (D) The liquidity trap where monetary policy is ineffective.
A horizontal LM curve represents a liquidity trap, a situation where the demand for money is perfectly elastic at a very low interest rate. In

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this scenario, the public is willing to hold any amount of money supplied by the central bank, and any increase in the money supply fails to lower interest rates further. Consequently, monetary policy becomes completely ineffective.

220. (A) 4, 2, 1, 3
The history of macroeconomic thought has progressed through several major contributions. It began with the foundation of classical economics by Adam Smith. In the nineteen thirties, J.M. Keynes published the General Theory, transforming the field. Later, Milton Friedman introduced the concept of the natural rate of unemployment. Finally, Robert Lucas Jr. developed the Rational Expectations critique, challenging traditional methods of policy evaluation.

221. (B) Peak and Trough.
The contraction or recession phase of a business cycle is the period during which economic activity is declining. It begins at the peak, which is the highest point of the cycle, and continues until the economy reaches the trough, which is the lowest point. During this phase, indicators such as national income, output, and employment levels typically fall, reflecting a general.

222. (A) A progressive tax system automatically increases tax revenues during an expansion, slowing down the economy.
Fiscal drag occurs in an economy with a progressive tax system during a period of growth and rising incomes. As individuals earn more, they are pushed into higher tax brackets, causing their tax burden to rise faster than their income. This automatic increase in tax revenue reduces the growth of disposable income and aggregate demand, potentially slowing down the economic expansion without.

223. (A) People's expectations of the future are based on past values of the variable.
The fundamental assumption of the adaptive expectations hypothesis is that individuals form their expectations about the future value of an economic variable based on its past behavior. People are assumed to adjust their expectations only gradually as they observe new data and realize their past errors. This backward-looking approach implies that individuals do not incorporate all available information or current policy changes.

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224. (A) NNP at market price - Net indirect taxes.
National Income is defined as the total income earned by the factors of production of a country during a specific year. It is equivalent to Net National Product at factor cost. To calculate this from market price figures, one must subtract net indirect taxes, which includes the value of indirect taxes minus any subsidies provided by the government to the production sectors.

225. (B) The real wage is kept artificially above the market-clearing level.
In the classical model of the labor market, the quantity of labor supplied and demanded is determined by the real wage rate. The market is assumed to be self-correcting and always tends toward an equilibrium where all those who want to work can find jobs. Therefore, persistent unemployment can only occur if the real wage is prevented from falling to its.

226. (A) Both Statement I and Statement II are true.
In the short run, the average propensity to consume can be greater than one if individuals engage in dissaving to maintain their consumption levels when income is very low. However, in the long run, as autonomous consumption becomes negligible relative to total income, the average propensity to consume tends to become constant. In this long-run state, the proportion of income spent.

227. (A) P-1, Q-3, R-1, S-2
The slope of the IS and LM curves determines the relative effectiveness of fiscal and monetary policies. A flat IS curve or a flat LM curve makes fiscal policy highly effective, as it minimizes interest rate changes or crowding out. Conversely, a steep IS curve or a steep LM curve makes monetary policy more effective, as changes in the money supply results.

228. (B) Hicks's and Samuelson's multiplier-accelerator models.
Endogenous business cycle theories argue that economic fluctuations are generated by the internal mechanics of the economic system itself rather than external shocks. The models

developed by Hicks and Samuelson are classic examples, as they show how the interaction between the multiplier and the accelerator can create self-sustaining cycles of expansion and contraction. These models illustrate how the inherent dynamics of.

229. (C) Buying government securities.
A central bank can increase the total money supply in the economy by conducting an open market purchase, which involves buying government securities from commercial banks and the public. When the central bank pays for these securities, it injects new reserves into the banking system. This increase in reserves allows commercial banks to expand their lending activities, leading to a multiple.

230. (A) The IS curve is flatter and the LM curve is steeper.
The crowding out effect is most pronounced when the LM curve is steep and the IS curve is flat. A steep LM curve implies that a small increase in national income leads to a large rise in the interest rate. A flat IS curve indicates that investment is highly sensitive to the interest rate. Under these conditions, any fiscal expansion leads to.

231. (C) Frictional and structural unemployment.
The natural rate of unemployment represents the level of unemployment that exists even when the labor market is in equilibrium and the economy is at full employment. It consists of frictional unemployment, which occurs as workers move between jobs, and structural unemployment, which arises from a mismatch between worker skills and job requirements. It specifically excludes cyclical unemployment caused by fluctuations.

232. (A) Both A and R are true and R is the correct explanation of A.
Keynes identified investment as the most volatile and unstable component of aggregate demand. He argued that investment decisions are based on the marginal efficiency of capital, which represents the expected profitability of new projects. Since these expectations depend on the uncertain and subjective future, they are often driven by animal spirits or the shifting moods of optimism and pessimism among investors.

233. (B) An initial government injection of spending designed to stimulate private sector activity and start a recovery.
Pump priming is a fiscal policy strategy where the government provides an initial burst of spending to jump-start an economy during a deep recession. The goal is to stimulate enough private sector activity and demand that the economy can eventually sustain its own recovery without further government intervention. Like priming a pump, this small initial amount is intended to get the entire.

234. (B) Adjust to policy changes.
A fundamental difference between the Rational Expectations Hypothesis and the Adaptive Expectations Hypothesis is the speed at which individuals adjust to new information. Under rational expectations, agents are forward-looking and incorporate all available information, allowing them to adjust almost immediately to policy changes. In contrast, adaptive expectations assume people are backward-looking and only adjust their behavior gradually based on their past experiences.

235. (A) The value of the flour is already incorporated into the final price of the bread.
To avoid the problem of double counting in Gross Domestic Product, economists only include the value of final goods and services. Flour purchased by a baker is considered an intermediate good because it is used as an input to create another product. Since the price of the final bread already reflects the cost of all ingredients, including the flour separately would results.

236. (A) (a), (b), and (d) only
The classical theory of output and employment is based on several core tenets, including the belief that the economy is self-regulating and naturally tends toward full employment. It adheres to Say's Law, which states that supply creates its own demand. Furthermore, the theory assumes that wages and prices are perfectly flexible, allowing markets to clear without the need for government.

237. (B) Consumption is equal to income.
On a consumption function graph, the break-even point is the specific level of income where

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total consumption is exactly equal to total disposable income. At this point, the entire income is spent on goods and services, and there is no saving or dissaving occurring. This point is visually represented where the consumption line intersects with the forty-five-degree reference line on.

238. (C) $100 million
The level of net induced investment can be determined using the accelerator coefficient and the expected change in national output. The accelerator coefficient represents the ratio of required capital to output. By multiplying the coefficient of two by the expected fifty million dollar increase in output, we find that firms will need to invest one hundred million dollars in new capital equipment.

239. (B) Negatively related.
According to Keynesian liquidity preference theory, the demand for money for speculative purposes and the market rate of interest are negatively related. When interest rates are high, the opportunity cost of holding liquid cash is also high, and individuals expect rates to fall in the future, so they hold less cash. Conversely, at low interest rates, the demand for money.

240. (B) A decrease in the money supply.
In the IS-LM framework, the LM curve represents equilibrium in the money market. A decrease in the total money supply by the central bank creates a shortage of liquidity at the initial interest rate and income level. To restore equilibrium, the interest rate must rise at every level of income, which is represented by a leftward shift of the LM.

241. (C) An adverse supply shock, such as a sharp increase in the price of oil.
Stagflation is a challenging economic situation characterized by the simultaneous occurrence of high inflation and stagnant growth with high unemployment. It is typically caused by an adverse supply-side shock, such as a sudden and significant increase in the price of a critical input like oil. This shock increases production costs and shifts the aggregate supply curve to the left, hurting consumers.

242. (A) Lead to an increase in national income by the same amount.
The balanced budget multiplier principle states that if the government increases both spending and taxes by the same amount, the net effect on national income will be positive. Specifically, national income will increase by exactly the same amount as the increase in government spending. This occurs because the spending multiplier is larger than the tax multiplier, since part of the tax.

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243. (B) The models' parameters might change when policies change, invalidating the forecast.
The Lucas critique is a fundamental challenge to traditional econometric models used for policy evaluation. Robert Lucas argued that these models assume historical relationships remain constant even when government policies are altered. However, because rational agents adjust their expectations and behavior in response to new policies, the parameters of the models are likely to change. Therefore, using past data to predict results.

244. (C) Subtract depreciation (capital consumption allowance).
To calculate Net National Product from Gross National Product, it is necessary to account for the wear and tear of capital assets used during the production process. This is done by subtracting depreciation, also known as capital consumption allowance, from the gross figure. This adjustment ensures that the final value represents the net output available for consumption and net investment across.

245. (D) All of the above are correct.
In the Keynesian macroeconomic framework, the equilibrium level of national income can be identified using several equivalent conditions. It occurs where the total aggregate demand for goods equals the total aggregate supply. Alternatively, it is the point where planned saving is equal to planned investment, or where the sum of all leakages from the circular flow equals the sum of.

246. (D) (a), (b), (c), and (d)
The most basic version of the Keynesian multiplier model is built on several simplifying assumptions. It assumes that the price level and

the interest rate are constant, and that there are unemployed resources available in the economy. Furthermore, it typically considers a closed economy without any government activity. These assumptions allow for a clear analysis of how initial spending changes.

247. (B) Monetary policy is completely ineffective.
A perfectly vertical IS curve implies that the components of aggregate demand, particularly investment, are completely insensitive to changes in the market rate of interest. In this situation, even if the central bank increases the money supply and manages to lower interest rates, it will have no impact on spending or national income. Consequently, monetary policy becomes completely ineffective in this.

248. (A) There is no trade-off between inflation and unemployment.
The vertical long-run Phillips curve indicates that there is no permanent trade-off between inflation and unemployment in the long run. In this period, inflationary expectations fully adjust to actual inflation, and the unemployment rate returns to its natural level. This implies that the economy can have any rate of inflation at the natural unemployment rate, and that monetary policy cannot.

249. (D) Savings
In the circular flow of income, leakages are those portions of national income that are not immediately spent on domestically produced goods and services. Savings represent a primary leakage because they involve income that households choose to set aside for the future rather than using it for current consumption. Other leakages include taxes and imports, all of which reduce the total circulation.

250. (B) (a), (b), (c), and (e) only
The Rational Expectations Hypothesis posits that individuals utilize all available information to form their economic forecasts, ensuring that they do not make systematic errors. Under this framework, only unanticipated policy actions can influence real output, as anticipated changes are already factored into market prices. Forecast errors are purely random with a mean of zero, and the Phillips curve appears vertical even.

251. (B) GNP is calculated by adding Net Factor Income from Abroad to GDP.
Gross National Product measures the total value of final goods and services produced by a nation's residents regardless of their geographical location. To move from Gross Domestic Product to this measure, the net factor income from abroad must be added. This adjustment accounts for the difference between income earned by residents overseas and payments made to foreigners domestically.

252. (A) Net National Product at factor cost.
National income is the total income earned by the factors of production within an economy. This specific measure is derived by taking the Net National Product at market prices and adjusting for net indirect taxes. By removing these taxes and adding subsidies, the resulting figure accurately reflects the actual payments made to land, labor, and capital for production.

253. (C) To prevent the problem of double-counting in the aggregation process.
The value-added method focuses on the incremental value created at each distinct stage of the production process. By summing only the value added rather than the total turnover of every firm, economists avoid counting the same intermediate inputs multiple times. This ensures that the final national income figure accurately reflects the true market value of finished production throughout.

254. (D) Its GDP will be greater than its GNP.
Net Factor Income from Abroad is the difference between income earned by domestic residents from foreign sources and income paid to foreign residents from domestic production. When this value is negative, it indicates that payments to foreign factors exceed income from abroad. Consequently, the Gross Domestic Product, which measures internal production, will necessarily exceed the Gross National Product.

255. (C) Consumption, investment, government spending, and net exports.
The expenditure approach calculates national income by summing the total spending on final goods and services produced within an economy. This aggregate includes household consumption, business investment, government

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purchases, and the difference between exports and imports. This method reflects the total market value of the national output from the perspective of the final purchasers who drive economic activity.

256. (B) Supply creates its own demand, ensuring markets clear.

Say's Law is a foundational principle of classical economics asserting that the act of producing goods generates enough income to purchase those goods. This logic implies that overproduction or general gluts are impossible in the long run. Market forces, particularly flexible wages and prices, ensure that the total supply in the economy will always find a corresponding demand.

257. (D) A deficiency in the aggregate demand for goods and services.

Keynesian theory posits that the total level of output and employment in an economy is driven by the principle of effective demand. When households and firms do not spend enough on goods and services, businesses reduce production and lay off workers. This lack of sufficient spending creates a situation where persistent unemployment can exist without any automatic market correction.

258. (A) The automatic adjustment of wages and prices to ensure full employment.

Classical economists assume that wages and prices are perfectly flexible, allowing labor and product markets to clear continuously. In this framework, any unemployment is purely temporary because falling wages would quickly restore the demand for workers. Keynesian economics rejects this assumption, arguing instead that wages are often rigid or sticky downwards, preventing the economy from automatically reaching full employment.

259. (C) The Keynesian theory of output and employment.

An underemployment equilibrium occurs when an economy settles at a level of production below its full capacity. Unlike classical models that assume a natural return to full employment, this framework suggests that without government intervention, an economy can remain stuck with high unemployment. This condition is caused by insufficient aggregate demand, which fails to stimulate the necessary levels of production.

260. (A) Classicals see full employment as the norm, while Keynesians argue that underemployment can be a stable equilibrium.

The primary divergence between these schools of thought concerns the stability of the labor market. Classical theory maintains that markets naturally gravitate toward full employment through price adjustments. However, the alternative perspective suggests that equilibrium can occur at various levels of output. This means an economy might reach a stable state where many workers remain involuntarily unemployed due to demand constraints.

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261. (D) Consumption increases, but by a smaller amount than the increase in income.

Keynesian theory describes a psychological tendency where households increase their spending as their disposable income rises. However, the expansion in consumption is never as large as the gain in income. This occurs because individuals choose to save a portion of every additional unit of earnings. Consequently, the marginal propensity to consume remains a positive value that is less than one.

262. (B) The fraction of an additional unit of income that is allocated to consumption.

The marginal propensity to consume serves as a vital indicator of how household spending changes in response to fluctuations in disposable income. It specifically quantifies the ratio between the change in consumption and the change in income. This coefficient determines the slope of the consumption function and plays a critical role in calculating the overall magnitude of the investment multiplier.

263. (C) Autonomous consumption independent of income.

In the mathematical representation of the consumption function, the constant term represents spending that occurs regardless of current earnings. This represents the minimum level of expenditure required to meet basic needs, even when disposable income is zero. Such spending is typically financed through past savings or borrowing. It remains unaffected by

(C) I, II, III, IV only
(D) II, III, IV only

28. An equation is said to be over-identified if:
(A) The number of excluded exogenous variables is exactly equal to the number of included endogenous variables minus one.
(B) The number of excluded exogenous variables is greater than the number of included endogenous variables minus one.
(C) The number of excluded exogenous variables is less than the number of included endogenous variables minus one.
(D) The equation cannot be estimated by any method.

29. The main difference between the Logit and Probit models lies in the:
(A) Type of dependent variable they use.
(B) Number of independent variables allowed.
(C) Assumption about the distribution of the error term.
(D) Method of calculating the R-squared value.

30. Arrange the following steps for constructing a price index number in a chronological sequence:
I. Selection of the base period.
II. Selection of commodities.
III. Obtaining price quotations.
IV. Choice of an appropriate formula.
(A) I, II, III, IV
(B) II, I, III, IV
(C) II, III, I, IV
(D) I, III, II, IV

31. A continuous random variable is described by its:
(A) Probability density function
(B) Probability mass function
(C) Cumulative frequency distribution
(D) Frequency polygon

32. If a distribution is negatively skewed, what is the most likely relationship between the mean, median, and mode?
(A) Mean > Median > Mode
(B) Mean < Median < Mode
(C) Mean = Median = Mode
(D) Mode > Mean > Median

33. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : The Central Limit Theorem is fundamental to statistical inference.
Reason (R) : It allows us to make inferences about a population parameter using the sample mean, even when the population distribution is unknown, provided the sample is large.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

34. A list of all units in the population from which a sample is to be drawn is known as a:
(A) Sampling frame
(B) Sampling unit
(C) Sample design
(D) Population parameter

35. A test statistic is calculated to be 2.5, and the critical value at a 5% significance level is 1.96. The appropriate conclusion would be to:
(A) Fail to reject the null hypothesis.
(B) Accept the alternative hypothesis.
(C) Reject the null hypothesis.
(D) Reduce the sample size.

36. Match the regression problems in List I with their descriptions in List II.
List I: (Problem)
P. Multicollinearity
Q. Heteroscedasticity
R. Autocorrelation
S. Specification Error
List II: (Description)
1. Non-constant variance of the error term
2. Omission of a relevant variable
3. High correlation among independent variables
4. Correlation between successive error terms
(A) P-3, Q-1, R-4, S-2
(B) P-3, Q-2, R-1, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-4, R-1, S-3

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becomes one-quarter. Dividing one by one-quarter yields a final result of four. This means that every unit of new investment generates four units of income.

273. (D) The change in output or consumption and the level of induced investment.
This principle describes how fluctuations in the demand for consumer goods influence the demand for capital equipment. When output or consumption grows, firms must expand their productive capacity to meet the higher demand, leading to induced investment. The accelerator coefficient represents the ratio between this new investment and the change in output, showing that investment is sensitive to economic growth rates.

274. (A) Their interaction can amplify economic fluctuations, contributing to business cycles.
The combination of these two economic mechanisms creates a powerful feedback loop. An initial increase in investment raises income through the multiplier, which then triggers more investment through the accelerator. This cumulative process can lead to rapid economic expansions or sharp contractions. These interactions explain why economic activity tends to move in cycles of booms and busts rather than steady growth.

275. (C) Multiplier effect.
This phenomenon describes the process where an initial change in autonomous spending, such as investment, leads to a proportionally larger final change in the level of national income. The increase in income for one person becomes the source of spending for another, creating a chain reaction of consumption. The total impact is a multiple of the original expenditure throughout the economy.

276. (A) Transactions and precautionary motives.
Individuals hold cash primarily to facilitate planned daily expenditures and to provide a safety net against unexpected financial emergencies. The demand for money for these two purposes is closely tied to a person's earnings. As national income rises, the volume of transactions increases and the amount set aside for contingencies typically grows. Therefore, both motives are increasing functions of income.

277. (D) The price of bonds.
The speculative demand for money is based on the inverse relationship between the market rate of interest and the value of fixed-income securities. When interest rates rise, the market price of existing bonds falls to align their yield with new issues. Investors manage their cash holdings based on these expectations. A preference for liquidity increases when individuals anticipate falling bond prices.

278. (B) It is a negative and inverse relationship.
The amount of money held for speculative purposes depends on the prevailing interest rate. High interest rates increase the opportunity cost of holding liquid cash and suggest a likely future decline in rates, making bonds more attractive. Conversely, low interest rates reduce this opportunity cost and foster expectations of future rate hikes. Therefore, the speculative demand for money rises as interest rates fall.

279. (C) Liquidity trap.
This economic condition occurs when the nominal interest rate falls to such a low level that investors prefer holding cash over bonds. At this point, individuals expect interest rates to rise in the future, which would lead to capital losses on securities. Consequently, the demand for money becomes perfectly elastic, and any further increases in the money supply fail to lower rates.

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280. (D) They expect the interest rate to rise, which would cause a capital loss on bonds.
When interest rates are exceptionally low, they are widely expected to increase eventually. Since bond prices move in the opposite direction of interest rates, an increase in rates results in a decrease in bond values. To avoid these capital losses, rational investors choose to hold their wealth in liquid money rather than in bonds. This behavior drives high speculative demand for money.

281. (A) The equilibrium conditions in the goods market.
This curve maps out the various combinations of interest rates and levels of national income where the market for goods and services is in balance. Equilibrium in this market is defined as the point where planned investment equals

changes in the current level of national income or output.

264. (D) The Average Propensity to Consume (APC) falls, and the MPC remains constant.
In the short-run consumption function, as households become wealthier, they tend to spend a smaller percentage of their total income. This results in a declining average propensity to consume. Simultaneously, the marginal propensity to consume, which measures the spending out of each extra unit of income, is assumed to stay stable. This relationship highlights that higher income levels lead to increased savings.

265. (A) A portion of any additional income is consumed, and the remaining portion is saved.
This specific range for the marginal propensity to consume indicates that individuals neither save nor spend their entire incremental income. Because the value is greater than zero, some consumption always follows an income rise. Because the value is less than one, a fraction is also set aside as savings. This fundamental behavioral assumption ensures that both consumption and saving grow with income.

266. (B) The Marginal Efficiency of Capital is greater than or equal to the market rate of interest.
Investment decisions are based on a comparison between the expected profitability of a capital asset and the cost of borrowing funds. The marginal efficiency of capital represents the anticipated rate of return from a new investment. A project is considered economically viable only if this expected return meets or exceeds the prevailing interest rate, which represents the opportunity cost of capital.

267. (B) The rate of discount that equates the present value of future returns from an asset to its cost.
This concept defines the internal rate of return expected from a specific capital investment over its lifetime. It is the specific discount rate that makes the sum of discounted future net revenues exactly equal to the supply price of the asset. Investors use this metric to determine the attractiveness of new projects, comparing it against the market interest rate for decision-making purposes.

268. (A) The Marginal Efficiency of Capital tends to decline as more investment is undertaken.
The downward slope of the investment demand schedule reflects the principle of diminishing returns to capital. As total investment in the economy increases, the supply price of capital goods typically rises while the prospective yields from additional assets tend to fall. Consequently, the marginal efficiency of capital decreases, meaning that firms will only undertake more investment if interest rates also decline.

269. (C) Autonomous investment.
Certain types of capital spending are driven by long-term factors rather than current economic activity levels. Factors such as scientific breakthroughs, new technology, or demographic shifts prompt businesses to invest regardless of the current national income. This spending is treated as an exogenous variable in macroeconomic models, meaning it is determined by forces outside the immediate income and induced investment relationship.

270. (D) An increase in the volume of investment.
Interest rates represent the cost of financing for new capital projects. When these rates fall, more investment opportunities become profitable because the cost of borrowing is now lower than the marginal efficiency of capital for a wider range of projects. This results in businesses expanding their capital stock, which corresponds to a movement down along the downward-sloping investment demand curve.

271. (C) The Marginal Propensity to Consume.
The multiplier effect measures how an initial injection of spending creates a larger total increase in national income. Its specific magnitude depends on how much of each subsequent round of income is spent by households. A higher marginal propensity to consume leads to more spending in each round, which results in a larger multiplier. Mathematically, it is calculated using the MPS.

272. (B) 4
The investment multiplier is calculated using a specific formula where the value equals one divided by one minus the marginal propensity to consume. In an economy where three-quarters of additional income is spent, the denominator

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The long-run analysis concludes that monetary and fiscal policies cannot permanently reduce unemployment below its natural level. While short-run gains might occur, they are eventually eroded as workers and firms factor higher inflation into their contracts. This results in a vertical line where the inflation rate can vary, but the unemployment rate remains fixed at its natural equilibrium point.

291. (C) The recurrent but non-periodic fluctuations in aggregate economic activity.

A business cycle represents the alternating periods of growth and decline in a nation's total economic output. These movements are observed in variables like gross domestic product, employment, and industrial production. While these fluctuations happen repeatedly over time, they do not follow a fixed schedule or duration. They are a natural feature of market economies, reflecting the complex interactions between economic agents.

292. (A) Expansion, Peak, Contraction, and Trough.

The path of economic activity over time is characterized by four distinct stages. The cycle begins with a period of growth, reaches its highest point of activity, and is then followed by a period of decline. The cycle concludes at its lowest point before the next period of growth begins. These phases help identify where the economy stands relative to its long-term potential.

293. (D) Production, employment, and profits tend to fall together.

Co-movement refers to the tendency of many different economic indicators to move in the same direction during different phases of the cycle. When the economy enters a downturn, businesses typically reduce their output, leading to lower demand for labor and increased unemployment. At the same time, falling sales and reduced efficiency often lead to a significant decline in corporate profits across the economy.

294. (B) They happen repeatedly, but their length and intensity are not predictable with certainty.

Although economic fluctuations occur time and again, they do not follow a regular, predictable timeframe like a calendar year. One expansion might last for several years, while another might be much shorter. Similarly, the severity of a recession can vary from a mild slowdown to a deep depression. This irregularity makes it difficult for policymakers to forecast exactly when turning points occur.

295. (C) Peak.

This specific phase represents the summit of economic activity within a single cycle. It is the point where the expansionary phase ends and the economy begins to contract. At this juncture, levels of production, employment, and consumer spending are at their highest relative to the surrounding period. Following this maximum point, growth rates turn negative as the economy enters a recessionary phase.

296. (D) Economic agents use all available information to make unbiased forecasts about the future.

The rational expectations hypothesis assumes that individuals and firms form their views of the future by looking at all relevant data, including current government policy and economic models. This means people do not just look at the past but also anticipate how future changes will affect them. While they make mistakes, these errors are random rather than systematic or predictable.

297. (A) Systematic and anticipated policies cannot affect real output and employment.

This proposition states that if a government policy is well-understood and expected by the public, people will adjust their behavior in advance to account for its effects. For example, if an increase in the money supply is predicted, workers will immediately demand higher wages, neutralizing any impact on real production. Consequently, systematic and anticipated policies do not influence real economic variables.

298. (B) A surprising and unanticipated change in monetary policy.

According to this framework, the only way for government action to influence real output or employment is by catching economic agents off guard. When a policy change is not expected, individuals do not have the opportunity to adjust their expectations for prices and wages beforehand. This temporary lack of adjustment allows the policy to have a real effect before expectations eventually catch up.

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planned saving. It illustrates how changes in the cost of borrowing influence aggregate demand and, subsequently, the total level of output produced within the economy.

282. (B) A lower interest rate encourages investment, which increases equilibrium income.
The negative slope of the goods market equilibrium curve is rooted in the sensitivity of investment to interest rates. When the cost of borrowing decreases, firms are incentivized to increase their spending on capital projects. This rise in investment spending boosts aggregate demand. Through the multiplier process, this leads to a higher total level of national income, establishing the inverse relationship observed.

283. (B) The money market is in equilibrium (L=M).
This curve identifies the different pairs of interest rates and income levels that ensure the demand for money matches the fixed supply of money. It represents the equilibrium state of the financial sector within the broader economy. At any point along this line, individuals are satisfied with the amount of liquid cash they hold relative to their income and the current interest rate.

284. (A) A higher income level increases money demand, requiring a higher interest rate to maintain equilibrium.
The upward slope of the money market curve arises because higher national income stimulates the demand for cash to facilitate transactions. Since the central bank maintains a fixed money supply, this increased demand for cash puts upward pressure on interest rates. The rising rates then act to reduce the speculative demand for money, eventually restoring balance between total demand and the available supply.

285. (C) Simultaneous equilibrium in both the goods and money markets.
The intersection of these two curves represents the unique combination of interest rates and national income where both the goods and money markets are balanced at the same time. This point defines the overall macroeconomic equilibrium for the economy. At this specific level, planned spending matches production, and the demand for liquid assets equals the supply provided by the monetary authorities.

286. (D) A stable and inverse relationship.
The original observation by A.W. Phillips identified a consistent trade-off between the rate of wage increases and the level of joblessness. This suggested that when the labor market is tight and unemployment is low, wages and prices tend to rise more rapidly. Conversely, high unemployment exerts downward pressure on inflation, creating a downward-sloping curve that reflects the conflicting macroeconomic goals.

287. (C) Policymakers faced a menu of choices, trading higher inflation for lower unemployment.
This model suggested that the government could use fiscal and monetary tools to choose a specific point along the curve. If the priority was reducing unemployment, the authorities would accept a higher rate of inflation as a necessary consequence. This framework presented inflation and unemployment as two variables that could be managed against each other, allowing for selection of an acceptable economic outcome.

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288. (B) Simultaneously high inflation and high unemployment.
The emergence of this economic condition in the 1970s undermined the idea of a stable trade-off. Instead of the expected inverse relationship, many nations faced rising prices and increasing joblessness at the same time. This breakdown showed that the traditional curve could shift outward due to supply shocks, proving that low unemployment and low inflation are not always mutually exclusive choices.

289. (D) Vertical at the natural rate of unemployment.
In the long run, economists argue that the trade-off between inflation and unemployment disappears as people adjust their expectations. The economy eventually returns to a level of unemployment determined by structural factors, regardless of the inflation rate. Therefore, any attempt to use expansionary policy to keep unemployment below this level will only lead to higher inflation without providing any lasting gains.

290. (A) There is no long-run trade-off, and systematic attempts to lower unemployment below the natural rate lead only to higher inflation.

CHAPTER 03
Statistics and Econometrics

1. Which of the following defines probability as the ratio of the number of favorable outcomes to the total number of equally likely outcomes?
(A) Empirical or relative frequency approach
(B) Classical approach
(C) Subjective approach
(D) Axiomatic approach

2. The first moment about the origin (zero) in a probability distribution represents the:
(A) Mean
(B) Variance
(C) Skewness
(D) Kurtosis

3. Given below are two statements:
Statement I : The median is a measure of central tendency that is less affected by extreme values than the mean.
Statement II : The mode is always unique in any given dataset.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

4. A simple random sample is one in which:
(A) The population is divided into strata with random sampling from each.
(B) The selection of units is based on the judgment of the researcher.
(C) Every kth unit from a randomized list of the population is selected.
(D) Every population unit has an equal and independent chance of selection.

5. Which of the following statements about Type I and Type II errors in hypothesis testing is correct?
(A) A Type I error is failing to reject a true null hypothesis, while a Type II error is rejecting a false null hypothesis.
(B) A Type I error and a Type II error are both related to rejecting a true null hypothesis.
(C) A Type I error is rejecting a true null hypothesis, while a Type II error is failing to reject a false null hypothesis.
(D) A Type I error occurs when the sample is non-representative, while a Type II error occurs when the test statistic is miscalculated.

6. The property 'BLUE' in the context of an estimator in linear regression stands for:
(A) Biased Linear Unbiased Estimator
(B) Best Linear Unbiased Estimator
(C) Best Logarithmic Unbiased Estimator
(D) Biased Logarithmic Uniform Estimator

7. The Identification Problem in econometrics arises primarily in the context of:
(A) Single-equation regression models
(B) Time series models with unit roots
(C) Discrete choice models
(D) Simultaneous equation models

8. Which of the following is NOT a characteristic of a recursive model?
(A) There is feedback from a later equation to an earlier one.
(B) The error terms across different equations are uncorrelated.
(C) The matrix of coefficients of endogenous variables is triangular.
(D) It can be solved equation by equation using Ordinary Least Squares (OLS).

9. In a discrete choice model, if the dependent variable can take on only two values (e.g., 0 or 1), which of the following models is most appropriate?
(A) Tobit model
(B) ARIMA model
(C) Logit or Probit model
(D) Simple Linear Regression model

10. A time series is said to be stationary if:

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299. (B) REH assumes people use all available information, while adaptive expectations primarily relies on past trends.

The fundamental difference lies in how information is processed by individuals. One approach suggests that people only learn from their previous experiences, adjusting their expectations slowly as new data becomes available from the past. In contrast, the rational approach assumes that agents are forward-looking and incorporate their understanding of the entire economic system and future policy intentions into their decision-making processes.

300. (A) Assumes individuals have and can process an unrealistic amount of information.

Critics argue that the assumption that every person has access to and can perfectly interpret all economic data is highly improbable. In the real world, acquiring information is costly, and many individuals lack the sophisticated knowledge required to understand complex macroeconomic models. This suggests that people may not be as forward-looking as the theory assumes, leading to potentially systematic errors.

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the number of endogenous variables in the equation minus one.
(B) The number of included endogenous variables must be less than the number of excluded exogenous variables.
(C) The total number of variables in the model must be less than the total number of equations.
(D) The rank of a specific matrix of coefficients must be equal to the number of equations minus one.

19. A recursive system of simultaneous equations is one where:
(A) All variables are determined jointly in a feedback loop.
(B) The number of endogenous variables is greater than the number of equations.
(C) The causal flow is unidirectional, and OLS can be applied to each equation sequentially.
(D) All error terms are perfectly correlated.

20. Which of the following is NOT a discrete choice model?
(A) Probit model
(B) Logit model
(C) Multinomial Logit model
(D) ARIMA model

21. The component of a time series that reflects long-term, persistent movements over a period of time is called:
(A) Seasonal variation
(B) Cyclical fluctuation
(C) Trend
(D) Irregular variation

22. A bag contains 5 red balls and 3 blue balls. If two balls are drawn at random without replacement, what is the probability that both balls are red?
(A) 25/64
(B) 5/14
(C) 5/8
(D) 1/4

23. Which of the following measures of central tendency can be determined graphically using a histogram?
(A) Mean
(B) Median
(C) Geometric Mean
(D) Mode

24. Given below are two statements regarding sampling methods:
Statement I : Stratified sampling involves dividing the population into homogeneous subgroups and then taking a simple random sample from each subgroup.
Statement II : Cluster sampling is most efficient when the elements within a cluster are as heterogeneous as possible.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

25. The p-value in hypothesis testing indicates the:
(A) Probability of committing a Type I error.
(B) Probability of committing a Type II error.
(C) Smallest level of significance at which the null hypothesis can be rejected.
(D) Power of the test.

26. Which of the following is an assumption of the Classical Linear Regression Model (CLRM)?
(A) There is no autocorrelation between the disturbances.
(B) The error term has a non-zero mean.
(C) The variance of the error term is not constant (heteroscedasticity).
(D) The explanatory variables are perfectly correlated with each other.

27. Consider the following statements regarding the properties of an OLS estimator:
I. 'Linear' means it is a linear function of the dependent variable.
II. 'Unbiased' means that on average, the estimated value is equal to the true population value.
III. 'Best' means it has the minimum variance among all linear unbiased estimators.
IV. The Gauss-Markov theorem establishes the BLUE property of OLS estimators.
V. The estimator must be consistent even if it is biased.
Which of the above statement(s) is/are correct?
(A) I, II, III only
(B) I, III, IV, V only

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(A) Its mean, variance, and autocorrelation are constant over time.
(B) It exhibits a consistent and clear upward or downward trend.
(C) It has seasonal fluctuations that repeat every calendar year.
(D) Its observed values are strictly positive throughout the series.

11. Consider the following statements about correlation coefficient (r):
I. The value of r lies between -1 and +1.
II. A value of r = 0 implies that there is no relationship between the variables.
III. It is a unit-free measure.
IV. It measures only linear association between variables.
Which of the above statements are correct?
(A) I, II and III only
(B) I, III and IV only
(C) II, III and IV only
(D) I, II, III and IV

12. If the probability of event A is P(A), the probability of event B is P(B), and they are independent, then the probability of both events occurring, P(A and B), is:

(A) $P(A)+P(B)$

(B) $P(A)\cdot P(B)$

(C) $P\frac{A}{P}(B)$

(D) $P(A)+P(B)-P(A)\cdot P(B)$

13. What does the Central Limit Theorem state?
(A) The mean of the sampling distribution equals the population mean.
(B) The variance of a sample decreases as the sample size increases.
(C) The large-sample distribution of means is approximately normal.
(D) All large populations are normally distributed by definition.

14. Match the measures in List I with their purposes in List II.
List I: (Measure)
P. Mean
Q. Standard Deviation
R. Correlation Coefficient
S. Index Number
List II: (Purpose)
1. Measures direction and strength of linear relationship
2. Measures relative change over time
3. Measures central location
4. Measures dispersion or spread
(A) P-3, Q-4, R-1, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-3, R-2, S-1

15. Sampling error is defined as the:
(A) Difference between a sample statistic and the corresponding population parameter.
(B) Error arising from mistakes in data collection.
(C) Error that occurs when the sampling frame is incomplete.
(D) Bias introduced by using a non-probability sampling method.

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16. In hypothesis testing, the level of significance (alpha) represents the probability of:
(A) Correctly rejecting a false null hypothesis.
(B) Making a Type I error.
(C) Making a Type II error.
(D) Correctly failing to reject a true null hypothesis.

17. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : OLS estimators are biased in the presence of simultaneous equations.
Reason (R) : In a simultaneous equation system, at least one of the explanatory variables is correlated with the error term.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

18. The order condition for identification of an equation states that:
(A) The number of excluded exogenous variables must be greater than or equal to

37. The rank condition for identification is considered:
(A) A necessary but not sufficient condition.
(B) A sufficient but not necessary condition.
(C) Both a necessary and a sufficient condition.
(D) Neither a necessary nor a sufficient condition.

38. Which estimation method is commonly used for a single over-identified equation within a system of simultaneous equations?
(A) Ordinary Least Squares (OLS)
(B) Two-Stage Least Squares (2SLS)
(C) Indirect Least Squares (ILS)
(D) Maximum Likelihood Estimation (MLE)

39. The Probit model assumes that the probability of the event occurring is given by the:
(A) Cumulative logistic distribution function.
(B) Linear probability function.
(C) Poisson distribution function.
(D) Cumulative standard normal distribution function.

40. Random or irregular variations in a time series are caused by:
(A) Unforeseen and unpredictable events like strikes, floods, or wars.
(B) Long-term economic growth.
(C) Weather patterns and social customs.
(D) Business cycles.

41. The second moment about the mean in a probability distribution measures:
(A) The average value
(B) The skewness
(C) The variance
(D) The kurtosis

42. Which of the following is an incorrect pair?
(A) Marshall-Edgeworth Index - Uses current year prices as weights
(B) Laspeyres' Index - Uses base year quantities as weights
(C) Paasche's Index - Uses current year quantities as weights
(D) Fisher's Index - Geometric mean of Laspeyres' and Paasche's

43. Which of the following statements is true regarding sampling distribution?
(A) It is the probability distribution of a population parameter.
(B) It is the same as the frequency distribution of a sample.
(C) Its standard deviation is called the population standard deviation.
(D) It is the probability distribution of a sample statistic.

44. Which of the following is NOT a type of probability sampling?
(A) Simple Random Sampling
(B) Quota Sampling
(C) Stratified Sampling
(D) Cluster Sampling

45. The power of a statistical test is defined as:
(A) 1 - α (where α is the level of significance)
(B) The probability of rejecting a true null hypothesis.
(C) 1 - β (where β is the probability of a Type II error)
(D) The p-value of the test statistic.

46. Consider the following statements about multicollinearity in a regression model:
I. It refers to a high correlation between the dependent variable and an independent variable.
II. It leads to biased OLS estimators.
III. It results in large standard errors for the regression coefficients.
IV. The t-ratios for individual coefficients may become statistically insignificant.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) III and IV only
(C) I, II and III only
(D) II, III and IV only

47. The primary purpose of the rank and order conditions for identification is to:
(A) Check if a unique estimate of the structural parameters can be obtained from the estimated reduced-form parameters.
(B) Ensure that the regression model has a high R-squared value.
(C) Test for the presence of heteroscedasticity in the model.
(D) Determine the optimal number of instrumental variables to use.

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(B) To simplify the model by removing all exogenous variables.
(C) To ensure that the model is perfectly identified.
(D) To express each endogenous variable solely as a function of exogenous variables and error terms.

88. If an equation is under-identified, it means that:
(A) We cannot obtain a unique estimate for its parameters.
(B) We have more than one unique estimate for its parameters.
(C) We can obtain a unique estimate using OLS.
(D) The equation is statistically insignificant.

89. A key assumption of the Tobit model is that the decision to participate (e.g., whether to spend any money) and the decision on the amount (e.g., how much to spend) are:
(A) Determined by two separate and unrelated processes.
(B) Independent of all explanatory variables.
(C) Determined by the same underlying variable and process.
(D) Based on a discrete probability distribution.

90. Cointegration between two non-stationary time series, I(1), implies that:
(A) A linear combination of the two series is stationary, I(0).
(B) The two series are completely unrelated.
(C) Both series must be differenced twice to become stationary.
(D) One series causes the other.

91. Which of the following is not a property of the normal distribution?
(A) It is bell-shaped and symmetric about the mean.
(B) The mean, median, and mode are all equal.
(C) The curve is asymptotic to the x-axis.
(D) The total area under the curve is greater than 1.

92. The geometric mean of Laspeyres' and Paasche's indices is:
(A) Bowley's Index
(B) Marshall-Edgeworth Index
(C) Fisher's Ideal Index
(D) Kelly's Index

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93. A sampling distribution of a statistic is:
(A) the probability distribution of the statistic for all possible samples of a given size.
(B) the distribution of values of the variable in one sample.
(C) the distribution of values of the variable in the population.
(D) an ordered display of data from one sample.

94. Which of the following statements about statistical inference is incorrect?
(A) It involves drawing conclusions about a population based on sample data.
(B) Point estimation provides a single value as the estimate of a population parameter.
(C) Interval estimation provides a range of values that is likely to contain the population parameter.
(D) Statistical inference can prove a hypothesis with 100% certainty.

95. In the context of a simple linear regression, the best-fit line is the one that minimizes the:
(A) Sum of the squared residuals.
(B) Sum of the absolute values of the residuals.
(C) Sum of the residuals.
(D) Number of residuals.

96. Consider the following consequences of model specification errors:
I. Omission of a relevant variable can lead to biased and inconsistent estimators.
II. Inclusion of an irrelevant variable leads to OLS estimators that are still unbiased and consistent.
III. Inclusion of an irrelevant variable results in inefficient estimators (larger variances).
IV. Using the wrong functional form can lead to biased estimators.
Which of the above statement(s) is/are correct?
(A) I and IV only
(B) II and III only
(C) I, II, and III only
(D) I, II, III, and IV

97. An instrumental variable (IV) must satisfy two main conditions: relevance and exogeneity. The exogeneity condition states that the instrument must be:
(A) Correlated with the endogenous regressor.
(B) Uncorrelated with the error term.

the 0-1 range.
(B) It cannot handle more than one independent variable.
(C) The dependent variable must be continuous.
(D) It assumes a linear relationship, which is always incorrect.

59. The correlogram (ACF plot) is a useful tool for:
(A) Testing for heteroscedasticity in regression residuals.
(B) Checking for multicollinearity among regressors.
(C) Verifying the normality of the error terms.
(D) Identifying the presence of trend and seasonality in a time series.

60. Arrange the following model development stages in econometrics in a logical sequence:
I. Estimation of the model.
II. Specification of the mathematical model.
III. Formulation of a theoretical hypothesis.
IV. Hypothesis testing.
(A) III, II, I, IV
(B) II, III, I, IV
(C) III, I, II, IV
(D) I, III, II, IV

61. The third moment about the mean, when standardized, is a measure of:
(A) Central tendency
(B) Dispersion
(C) Skewness
(D) Kurtosis

62. Which index number formula is known as the ideal index because it satisfies the time reversal and factor reversal tests?
(A) Laspeyres' Index
(B) Paasche's Index
(C) Marshall-Edgeworth Index
(D) Fisher's Ideal Index

63. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : In the presence of heteroscedasticity, OLS estimators are still linear and unbiased.
Reason (R) : However, they are no longer 'best' because they do not have the minimum variance among all linear unbiased estimators.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

64. Systematic sampling is a type of:
(A) Non-probability sampling.
(B) Probability sampling.
(C) Judgment sampling.
(D) Convenience sampling.

65. A Chi-square (χ^2) test is most appropriately used for:
(A) Comparing the means of two small samples.
(B) Testing for goodness of fit or independence between categorical variables.
(C) Testing the significance of a correlation coefficient.
(D) Comparing the variances of two populations.

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66. Match the statistical tests in List I with their purposes in List II.
List I: (Test)
P. Durbin-Watson test
Q. Breusch-Pagan test
R. Chow test
S. Augmented Dickey-Fuller test
List II: (Purpose)
1. Testing for heteroscedasticity
2. Testing for structural break
3. Testing for autocorrelation
4. Testing for a unit root
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-3, Q-2, R-4, S-1
(D) P-2, Q-1, R-3, S-4

67. In a system of 'M' simultaneous equations, an equation is exactly identified by the order condition if K-k = m-1, where 'K' is the number of exogenous variables in the model, 'k' is the number of exogenous variables in the equation, and 'm' is:
(A) The number of exogenous variables in the equation.
(B) The total number of equations in the model.
(C) The number of endogenous variables in the

48. A variable that is determined within a simultaneous equation model is called:
(A) An exogenous variable
(B) An endogenous variable
(C) An instrumental variable
(D) A predetermined variable

49. The Tobit model is most appropriate when the dependent variable is:
(A) A categorical variable with more than two outcomes.
(B) Censored or limited in its range (e.g., non-negative).
(C) A count variable (e.g., number of patents).
(D) A binary variable (0 or 1).

50. The Dickey-Fuller test is primarily used to:
(A) Test for stationarity or the presence of a unit root.
(B) Test for the presence of autocorrelation.
(C) Test for cointegration between two series.
(D) Identify the order of an ARIMA model.

51. The area under the standard normal curve between $Z = -1.96$ and $Z = +1.96$ is approximately:
(A) 68%
(B) 90%
(C) 95%
(D) 99%

52. If the correlation coefficient between two variables x and Y is -0.9, it indicates:
(A) A weak negative linear relationship.
(B) A strong positive linear relationship.
(C) Almost no linear relationship.
(D) A strong negative linear relationship.

53. Given below are two statements:
Statement I : The standard error of the mean decreases as the sample size increases.
Statement II : The standard error of the mean is the standard deviation of the sampling distribution of the mean.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

54. A researcher wants to test if a new teaching method improves student scores. The null hypothesis (H_0) would be:
(A) The new method significantly improves scores.
(B) The new method has no effect on scores.
(C) The new method significantly worsens scores.
(D) The scores will be different after the new method.

55. If an important explanatory variable is omitted from a linear regression model, the OLS estimators for the included variables will be:
(A) Unbiased but inefficient.
(B) Biased but consistent.
(C) Unbiased and efficient.
(D) Biased and inconsistent.

56. Consider the following statements regarding Indirect Least Squares (ILS):
I. It is a method for estimating the parameters of a simultaneous equation model.
II. It can only be applied to exactly identified equations.
III. It involves first estimating the reduced-form equations using OLS.
IV. It is more computationally complex than Two-Stage Least Squares (2SLS).
V. It provides unique estimates for over-identified equations.
Which of the above statement(s) is/are correct?
(A) I, II and V only
(B) I, II and III only
(C) II, IV and V only
(D) I, III and IV only

57. A recursive system of simultaneous equations is one where:
(A) All variables are determined jointly in a feedback loop.
(B) The number of endogenous variables is greater than the number of equations.
(C) The causal flow is unidirectional, and OLS can be applied to each equation sequentially.
(D) All error terms are perfectly correlated.

58. What is a key limitation of the Linear Probability Model (LPM) that Logit and Probit models are designed to overcome?
(A) The predicted probabilities can be outside

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explanatory variable.

78. Which of the following is a key difference between recursive and non-recursive models?
(A) Recursive models have endogenous variables, while non-recursive models do not.
(B) Recursive models can only be used for time-series data, while non-recursive models are for cross-sectional data.
(C) Recursive models are estimated using 2SLS, while non-recursive models use OLS.
(D) Recursive models assume unidirectional influence, while non-recursive models allow for feedback.

79. The coefficients estimated in a Probit model are typically interpreted by calculating the:
(A) Marginal effects
(B) Odds ratios
(C) Elasticities at the mean
(D) Z-scores

80. An ARIMA(p, d, q) model combines which three components?
(A) Autocorrelation (p), Differencing (d), and Quality (q)
(B) Autoregressive (p), Integration (d), and Moving Average (q)
(C) Autoregressive (p), Deterministic (d), and Moving Average (q)
(D) Average (p), Integration (d), and Momentum (q)

81. The expected value of a discrete random variable is the:
(A) Simple average of all possible values.
(B) Sum of the products of each possible value and its probability.
(C) Most frequently occurring value.
(D) Middle value when all values are arranged in order.

82. The range is a measure of dispersion that is:
(A) The difference between the largest and smallest observations.
(B) Based on all observations.
(C) Not affected by extreme values.
(D) Equal to the square of the standard deviation.

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83. Given below are two statements:
Statement I : Non-sampling errors can be reduced by increasing the sample size.
Statement II : Sampling errors arise because the data are collected from a part, rather than the whole, of the population.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

84. In a two-tailed hypothesis test at a 5% level of significance, the rejection region is:
(A) Entirely in the right tail of the distribution.
(B) Entirely in the left tail of the distribution.
(C) Split, with 5% in each tail of the distribution.
(D) Split, with 2.5% in each tail of the distribution.

85. In the regression equation $Y = \alpha + \beta x + u$, the term 'u' represents the:
(A) Explained variation in Y.
(B) Intercept of the regression line.
(C) Stochastic error or disturbance term.
(D) Independent variable.

86. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : The problem of multicollinearity is a sample phenomenon, relating to the relationships among the regressors in the particular sample.
Reason (R) : Even if regressors are not linearly related in the population, they may be so in a given sample, leading to multicollinearity.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

87. What is the primary purpose of deriving the reduced-form equations from a structural simultaneous equation model?
(A) To check for the presence of autocorrelation.

system.
(C) The dependent variable is regressed on all instrumental variables.
(D) The residuals of the structural equation are tested for autocorrelation.

129. The main difference between a multinomial logit model and a simple logit model is that the multinomial logit model:
(A) Has a dependent variable with more than two nominal (unordered) categories.
(B) Uses a different link function for the probabilities.
(C) Is used exclusively for time-series data.
(D) Requires the independent variables to be categorical.

130. If the first difference of a time series is stationary, the original series is said to be:
(A) Stationary, I(0)
(B) Integrated of order one, I(1)
(C) Integrated of order two, I(2)
(D) A white noise process

131. The variance of a constant is:
(A) One
(B) Zero
(C) The constant itself
(D) Infinite

132. Spearman's Rank Correlation coefficient is a measure of association between:
(A) Two continuous variables that are normally distributed.
(B) Two variables ranked in order.
(C) Two categorical variables.
(D) A continuous variable and a categorical variable.

133. Given below are two statements:
Statement I : A census involves collecting data from every member of the population.
Statement II : A sample survey is often preferred over a census due to lower cost and faster data collection.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

134. Setting the significance level (α) at a very low value (e.g., 0.01 instead of 0.05) increases the risk of:
(A) A Type I error.
(B) A Type II error.
(C) Both Type I and Type II errors.
(D) A calculation error.

135. The Durbin-Watson 'd' statistic is used to detect the presence of:
(A) Multicollinearity
(B) First-order autocorrelation
(C) Heteroscedasticity
(D) Specification error

136. Match the model types in List I with their key features in List II.
List I: (Model Type)
P. Linear Probability Model
Q. Logit Model
R. Probit Model
S. Tobit Model
List II: (Key Feature)
1. Assumes error term follows standard normal distribution.
2. Handles censored dependent variable.
3. Simple OLS regression with a binary dependent variable.
4. Assumes error term follows logistic distribution.
(A) P-3, Q-4, R-1, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-3, S-4

137. A structural equation in a simultaneous system is said to be behavioral if it:
(A) Describes a definitional identity.
(B) Describes the behavior of a specific group of economic agents.
(C) Expresses an endogenous variable in terms of exogenous variables only.
(D) Is estimated using Two-Stage Least Squares.

138. An equation that is over-identified provides:
(A) No solution for the structural parameters.
(B) Exactly one solution for the structural parameters.
(C) More than one possible solution for the structural parameters.
(D) A unique solution only if OLS is used.

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(C) A lagged value of the dependent variable.
(D) Normally distributed.

98. Which of the following is an example of a non-recursive simultaneous equation model?
(A) A model where Y1 depends on X1, and Y2 depends on Y1 and X2.
(B) A classic supply and demand model where quantity demanded depends on price, and quantity supplied depends on price.
(C) A model where OLS can be applied to each equation sequentially without bias.
(D) A model with a triangular matrix of coefficients for the endogenous variables.

99. The coefficients in a Logit model are estimated using which method?
(A) Ordinary Least Squares (OLS)
(B) Two-Stage Least Squares (2SLS)
(C) Maximum Likelihood Estimation (MLE)
(D) Generalized Method of Moments (GMM)

100. A time series with a unit root is:
(A) Stationary
(B) Non-stationary
(C) Seasonally adjusted
(D) Deterministically trending

101. The moments of a distribution are statistical parameters used to measure its characteristics. The fourth moment about the mean is used to measure:
(A) Variance
(B) Skewness
(C) Kurtosis
(D) Centrality

102. If Karl Pearson's coefficient of correlation is +0.8, then the coefficient of determination is:
(A) 0.8
(B) 0.64
(C) -0.8
(D) 1.6

103. The standard deviation of the sampling distribution of a statistic is known as its:
(A) Standard error
(B) Variance
(C) Parameter
(D) Quartile deviation

104. Given below are two statements regarding hypothesis testing:
Statement I : The null hypothesis is a statement of the status quo or no effect, which the researcher seeks to disprove.
Statement II : The alternative hypothesis represents the conclusion the researcher is trying to establish.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

105. Match the econometric concepts in List I with their core ideas in List II.
List I: (Concept)
P. Gauss-Markov Theorem
Q. Central Limit Theorem
R. Law of Large Numbers
S. Identification Problem
List II: (Core Idea)
1. Sample mean converges to population mean as sample size increases.
2. Concerns the possibility of uniquely estimating structural parameters.
3. Establishes the BLUE property of OLS estimators.
4. Sampling distribution of the mean approaches normal for large samples.
(A) P-3, Q-4, R-1, S-2
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-2, R-3, S-4

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106. In the presence of autocorrelation, the OLS estimators are:
(A) Biased and inefficient.
(B) Unbiased but inefficient.
(C) Biased but efficient.
(D) Unbiased and efficient.

107. Which of the following is NOT a method to detect multicollinearity?
(A) High R^2 but few significant t-ratios.
(B) High pair-wise correlations among regressors.
(C) The Durbin-Watson test.
(D) Calculating Variance Inflation Factors (VIF).

108. The main advantage of 2SLS over ILS is that:
(A) 2SLS can be applied to over-identified equations, while ILS cannot.
(B) 2SLS is easier to compute by hand.
(C) 2SLS provides unbiased estimates for under-identified equations.
(D) 2SLS does not require instrumental variables.

109. The dependent variable in a Tobit model is:
(A) A latent variable that is only partially observed.
(B) A purely categorical variable.
(C) A time series variable with a unit root.
(D) A count of occurrences.

110. Arrange the steps of the Box-Jenkins (ARIMA) methodology for time series forecasting in chronological order:
I. Model Estimation
II. Model Identification
III. Model Diagnostic Checking
IV. Forecasting
(A) I, II, III, IV
(B) II, I, III, IV
(C) II, III, I, IV
(D) III, II, I, IV

111. Which property of a point estimator implies that as the sample size increases, the estimates converge to the true value of the parameter?
(A) Unbiasedness
(B) Efficiency
(C) Consistency
(D) Sufficiency

112. The time reversal test for an index number is satisfied if:
(A) $P_{01} \times P_{10} = 1$
(B) $P_{01} \times Q_{01} = V_{01}$
(C) $P_{01} \times P_{10} = 0$
(D) $P_{01} / P_{10} = 1$

113. A list of students is divided by gender, and a random sample is taken from each gender group. This is an example of:
(A) Cluster sampling
(B) Stratified sampling
(C) Convenience sampling
(D) Simple random sampling

114. If a hypothesis test yields a p-value of 0.04, what is the conclusion at a 5% significance level?
(A) Reject the null hypothesis.
(B) Fail to reject the null hypothesis.
(C) The result is inconclusive.
(D) Accept the null hypothesis.

115. A high Variance Inflation Factor (VIF) for an independent variable in a multiple regression model is a strong indicator of:
(A) Heteroscedasticity
(B) Autocorrelation
(C) Multicollinearity
(D) Specification bias

116. Consider the following statements about simultaneous equation models:
I. A structural equation represents a behavioral or technical relationship derived from theory.
II. A reduced-form equation expresses an endogenous variable as a function of only predetermined variables.
III. OLS is generally inappropriate for estimating structural equations due to simultaneity bias.
IV. An exogenous variable is a variable whose value is determined outside the model.
V. A recursive model is a type of simultaneous equation model where causality is bidirectional.
Which of the above statement(s) is/are correct?
(A) I, II, III only
(B) I, II, III, IV only
(C) II, III, IV, V only
(D) I, II, III, IV, V

117. An equation that is part of a simultaneous equation system is identifiable if:
(A) It has a unique statistical form.
(B) Its parameters can be uniquely estimated from the data.
(C) It includes at least two endogenous variables.
(D) The R-squared value is greater than 0.9.

118. The interpretation of coefficients in a Probit model gives the change in the:
(A) Z-score for a one-unit change in the explanatory variable.
(B) Probability for a one-unit change in the

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explanatory variable.
(C) Odds ratio for a one-unit change in the explanatory variable.
(D) Log of the Z-score for a one-unit change in the explanatory variable.

119. A stationary time series will have an autocorrelation function (ACF) that:
(A) Cuts off sharply after a few lags.
(B) Declines exponentially or with a damped sine wave pattern.
(C) Fails to die out quickly.
(D) Shows a clear linear trend.

120. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : The error term in a classical linear regression model captures the influence of all variables that are not explicitly included in the model.
Reason (R) : It is assumed that these omitted variables are individually and collectively unimportant and are uncorrelated with the included explanatory variables.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

121. The sum of deviations of individual data points from their arithmetic mean is always:
(A) Greater than zero
(B) Less than zero
(C) Equal to zero
(D) Equal to the standard deviation

122. If a time series shows a pattern that repeats every year, this component is known as:
(A) Trend
(B) Cyclical fluctuation
(C) Seasonal variation
(D) Irregular movement

123. The probability of an event that is certain to occur is:
(A) 0
(B) 1
(C) 0.5
(D) Infinite

124. In the context of sampling, a larger sample size generally leads to:
(A) A smaller sampling error.
(B) A larger sampling error.
(C) A smaller non-sampling error.
(D) A larger non-sampling error.

125. Which test is used to compare the means of two independent groups when the sample sizes are small and the population variances are unknown but assumed to be equal?
(A) Z-test
(B) Independent samples t-test
(C) Paired samples t-test
(D) Chi-square test

126. Consider the following statements about the consequences of heteroscedasticity:
I. The OLS estimators remain unbiased and consistent.
II. The OLS estimators are no longer efficient (not BLUE).
III. The estimated variances and standard errors of the coefficients are biased.
IV. Confidence intervals and hypothesis tests based on OLS standard errors become unreliable.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) III and IV only
(C) I, II and III only
(D) I, II, III and IV

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127. The order condition for identification is a _____ condition, while the rank condition is a _____ condition.
(A) necessary, sufficient
(B) sufficient, necessary
(C) necessary, necessary
(D) sufficient, sufficient

128. In the first stage of Two-Stage Least Squares (2SLS), what is being done?
(A) The structural equation is estimated using OLS.
(B) Each endogenous explanatory variable is regressed on all exogenous variables in the

equation.
(D) The total number of variables in the model.

68. The two-stage least squares (2SLS) method is designed to address the problem of:
(A) Non-stationarity in time series data.
(B) Non-constant variance of the error term.
(C) High correlation between independent variables.
(D) Correlation between an explanatory variable and the error term.

69. In a Logit model, the coefficients represent the change in the:
(A) Probability of the event occurring for a one-unit change in the predictor.
(B) Odds of the event occurring for a one-unit change in the predictor.
(C) Log of the odds of the event occurring for a one-unit change in the predictor.
(D) Log of the probability of the event occurring for a one-unit change in the predictor.

70. The term 'differencing' in time series analysis is a transformation used to:
(A) Remove seasonality from the data.
(B) Induce stationarity in a non-stationary series.
(C) Estimate the trend component.
(D) Detect outliers in the series.

71. If two events are mutually exclusive, the probability that both occur is:
(A) 1.0
(B) 0.5
(C) Dependent on their individual probabilities
(D) 0.0

72. What is the primary characteristic of a distribution with positive kurtosis (leptokurtic)?
(A) It has fatter tails and a higher peak than the normal distribution.
(B) It is flatter than the normal distribution.
(C) It is skewed to the right.
(D) It is identical to the normal distribution.

73. Which of the following statements about the correlation coefficient 'r' and the regression coefficient 'b' is incorrect?
(A) The sign of 'r' is always the same as the sign of 'b'.
(B) 'r' is symmetric ($r_{xy} = r_{yx}$) but 'b' is not ($b_{xy} \neq b_{yx}$).
(C) If 'r' is 1, then the two regression lines are perpendicular to each other.
(D) 'r' is independent of the change of scale and origin, but 'b' is not.

74. A sampling technique where the population is divided into mutually exclusive groups and the researcher draws a sample of the groups to interview is:
(A) Cluster sampling
(B) Stratified sampling
(C) Systematic sampling
(D) Simple random sampling

75. The F-test in a multiple regression model is used to test the:
(A) Significance of an individual regression coefficient.
(B) Presence of autocorrelation.
(C) Normality of the residuals.
(D) Overall significance of the regression model.

76. Consider the following statements regarding regression analysis:
I. The coefficient of determination (R^2) measures the proportion of variation in the dependent variable explained by the independent variable(s).
II. Adjusted R^2 can decrease when a new variable is added to the model if that variable has little explanatory power.
III. R^2 value always lies between -1 and +1.
IV. A high R^2 always implies a good model.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, II and III only
(C) III and IV only
(D) I, II, III and IV

77. An instrumental variable used in 2SLS must be:
(A) Correlated with both the endogenous explanatory variable and the error term.
(B) Uncorrelated with both the endogenous explanatory variable and the error term.
(C) Correlated with the endogenous explanatory variable and uncorrelated with the error term.
(D) Correlated with the error term and uncorrelated with the endogenous

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139. The odds ratio in a logistic regression is calculated as:
(A) exp(β)
(B) log(β)
(C) 1 / β
(D) β^2

140. A 'white noise' process in time series is a series of random variables that are:
(A) Serially correlated with a constant mean and variance.
(B) Uncorrelated, have a mean of zero, and constant variance.
(C) Following a deterministic trend.
(D) Integrated of order one, I(1).

141. The concept of moments in probability theory is used to describe the properties of a:
(A) Sample
(B) Population
(C) Probability distribution
(D) Regression line

142. The Paasche's price index uses weights from the:
(A) Base period
(B) Current period
(C) Average of base and current periods
(D) A fixed period chosen arbitrarily

143. Which of the following is an example of a non-probability sampling method?
(A) Systematic Sampling
(B) Stratified Random Sampling
(C) Cluster Sampling
(D) Convenience Sampling

144. The t-distribution is similar to the standard normal distribution but has:
(A) A higher peak and thinner tails.
(B) A lower peak and fatter tails.
(C) A different mean.
(D) A negative variance.

145. In regression analysis, what does the term 'BLUE' imply about an estimator?
(A) It has the minimum variance among all possible estimators.
(B) It is correct in 95% of all samples.
(C) It has the minimum variance among the class of linear and unbiased estimators.
(D) It is based on a logarithmic transformation.

146. Arrange the following econometricians based on the chronological development of the concepts they are most associated with.
I. Ragnar Frisch
II. Carl Friedrich Gauss
III. Francis Galton
IV. Clive Granger
(A) II, III, I, IV
(B) I, II, III, IV
(C) III, II, IV, I
(D) II, I, III, IV

147. A structural parameter in an econometric model is a parameter that:
(A) Appears in a reduced-form equation.
(B) Appears in a structural equation.
(C) Is always estimated using OLS.
(D) Relates two exogenous variables.

148. An exogenous variable in a simultaneous equation model is a variable that is:
(A) Determined by the model's equations.
(B) Correlated with the error terms.
(C) Determined outside the model and is assumed to be independent of the error terms.
(D) Another name for the dependent variable.

149. The fundamental difference between Logit and Probit models is the assumed cumulative distribution function (CDF). For Logit it is the logistic CDF, and for Probit it is the:
(A) Poisson CDF
(B) Chi-Square CDF
(C) Standard Normal CDF
(D) F-distribution CDF

150. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : If two time series are cointegrated, a long-run equilibrium relationship exists between them.
Reason (R) : Even though the individual series may be non-stationary (wandering), their linear combination is stationary (mean-reverting), implying they do not drift too far apart.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.

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(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

151. If P(A) = 0.4, P(B) = 0.5, and P(A ∩ B) = 0.2, then the conditional probability P(A|B) is:
(A) 0.50
(B) 0.40
(C) 0.80
(D) 0.20

152. Which measure of central tendency must be used when dealing with qualitative data that is nominally scaled?
(A) Arithmetic Mean
(B) Median
(C) Mode
(D) Geometric Mean

153. A confidence interval provides a range of values which is likely to contain:
(A) a sample statistic
(B) a population parameter
(C) a level of significance
(D) a p-value

154. Which statement about the F-distribution is incorrect?
(A) It is a ratio of two chi-square distributions.
(B) It is skewed to the right.
(C) Its values can be negative.
(D) It is characterized by two degrees of freedom.

155. Goldfeld-Quandt test is used to detect:
(A) Autocorrelation
(B) Multicollinearity
(C) Heteroscedasticity
(D) Specification bias

156. Consider the following statements about the Identification Problem:
I. It is a problem of estimation, not specification.
II. It arises from the difficulty in distinguishing a given equation from a linear combination of other equations in the model.
III. The order condition is a necessary condition for identification.
IV. The rank condition is a sufficient condition for identification.
V. An over-identified equation has no identifiable parameters.
Which of the above statement(s) is/are correct?
(A) I, II and V only
(B) II, III and IV only
(C) I, III and V only
(D) III, IV and V only

157. Reduced form equations express endogenous variables as functions of:
(A) Other endogenous variables only.
(B) Predetermined (exogenous and lagged endogenous) variables only.
(C) A mix of current endogenous and exogenous variables.
(D) The structural error terms only.

158. The coefficients in a discrete choice model like Logit or Probit are generally estimated via the principle of:
(A) Method of Moments
(B) Ordinary Least Squares
(C) Maximum Likelihood
(D) Indirect Least Squares

159. A random walk model is a classic example of a:
(A) Stationary time series.
(B) Non-stationary time series.
(C) Seasonally adjusted series.
(D) Deterministic process.

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160. What is the most appropriate remedy if a regression model suffers from first-order autocorrelation?
(A) Add more explanatory variables.
(B) Use a logarithmic transformation of the variables.
(C) Use a transformation like the Cochrane-Orcutt procedure.
(D) Drop the variable causing multicollinearity.

161. In a binomial distribution, the probability of 'x' successes in 'n' trials, the mean (expected value) is given by:
(A) np
(B) np(1-p)
(C) sqrt(np(1-p))
(D) p(1-p)

162. The coefficient of variation is calculated as:
(A) (Mean / Standard Deviation) * 100

(B) (Standard Deviation / Mean) * 100
(C) (Variance / Mean) * 100
(D) (Mean / Range) * 100

163. Given below are two statements:
Statement I : Judgmental sampling is a form of non-probability sampling.
Statement II : In probability sampling, the probability of selecting any particular sample is known.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

164. Degrees of freedom in statistics are related to:
(A) The number of observations in a dataset.
(B) The number of independent pieces of information available to estimate a parameter.
(C) The total number of variables in a model.
(D) The significance level of a test.

165. The Gauss-Markov theorem states that under the assumptions of the Classical Linear Regression Model, the OLS estimators are:
(A) Biased
(B) Inefficient
(C) BLUE (Best Linear Unbiased Estimators)
(D) Consistent but biased

166. Match the terms in List I with their definitions in List II.
List I: (Term)
P. Endogenous variable
Q. Exogenous variable
R. Structural equation
S. Reduced-form equation
List II: (Definition)
1. An equation describing a theoretical relationship.
2. An equation expressing an endogenous variable in terms of predetermined variables.
3. A variable whose value is determined within the model.
4. A variable whose value is determined outside the model.
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

167. For an equation to be identified, there must be at least one exogenous variable excluded from that equation that is:
(A) Highly correlated with the included endogenous variables.
(B) Lagged value of the dependent variable.
(C) Also excluded from all other equations in the system.
(D) Included in at least one other equation in the system to serve as an instrument.

168. If the dependent variable of a model represents a choice among several unordered alternatives (e.g., mode of transport: car, bus, train), the most suitable model would be:
(A) A binary logit model
(B) A multinomial logit model
(C) A Tobit model
(D) An ordered probit model

169. The Partial Autocorrelation Function (PACF) is useful in the Box-Jenkins methodology for identifying the order of the:
(A) Differencing (d) component
(B) Moving Average (q) component
(C) Autoregressive (p) component
(D) Seasonal component

170. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : In a regression model, if an irrelevant variable is included, the OLS estimators of the other coefficients remain unbiased.
Reason (R) : However, including an irrelevant variable increases the variances of the estimators, making them inefficient.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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(A) Measure of central tendency.
(B) Measure of dispersion.
(C) Specialized type of average used to measure relative changes.
(D) Coefficient of correlation.

233. A non-sampling error can arise from all of the following ExCEPT:
(A) Poorly worded survey questions.
(B) Errors in data entry.
(C) Non-response from some subjects in the sample.
(D) The natural variation in statistics from random samples.

234. In hypothesis testing, what is beta (β)?
(A) The probability of a Type I error.
(B) The probability of a Type II error.
(C) The level of significance.
(D) The power of the test.

235. What is the consequence of perfect multicollinearity (one independent variable being a perfect linear function of another) in a regression model?
(A) The OLS estimators are biased.
(B) The OLS estimators are inefficient.
(C) The regression coefficients cannot be estimated.
(D) The R-squared value will be zero.

236. Consider the following statements about estimation methods for simultaneous equation models:
I. Indirect Least Squares (ILS) can only be used for exactly identified equations.
II. Two-Stage Least Squares (2SLS) can be used for both exactly identified and over-identified equations.
III. When an equation is exactly identified, ILS and 2SLS give identical estimates.
IV. Three-Stage Least Squares (3SLS) is generally more efficient than 2SLS because it estimates all equations in the system jointly.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, II and III only
(C) II, III and IV only
(D) I, II, III and IV

237. In a supply-demand model, price (P) and quantity (Q) are typically:
(A) Both exogenous variables.
(B) Both endogenous variables.
(C) P is endogenous and Q is exogenous.
(D) Q is endogenous and P is exogenous.

238. The marginal effect in a Probit model:
(A) Is constant across all values of the independent variables.
(B) Depends on the values of all independent variables in the model.
(C) Is equal to the estimated coefficient.
(D) Can be interpreted as an odds ratio.

239. The main objective of the Engle-Granger two-step method is to:
(A) Test for stationarity.
(B) Test for cointegration.
(C) Test for autocorrelation.
(D) Estimate an ARIMA model.

240. An autoregressive (AR) process of order 'p' means the current value of a time series is a linear function of:
(A) 'p' past error terms.
(B) 'p' past values of the series itself.
(C) 'p' past values of the series and 'p' past error terms.
(D) the first 'p' values of the series.

241. If two events, A and B, are independent, then P(A|B) is equal to:
(A) P(A)
(B) $P(B)$
(C) $P(A) \cdot P(B)$
(D) 0

242. In a positively skewed distribution, the relationship between mean, median and mode is:
(A) Mean > Median > Mode
(B) Mean < Median < Mode
(C) Mean = Median = Mode
(D) Mean > Mode > Median

243. As the sample size increases, the t-distribution approaches the:
(A) Chi-square distribution
(B) F-distribution
(C) Standard normal distribution

181. The value that has half of the observations above it and half of the observations below it is called the:
(A) Mean
(B) Mode
(C) Median
(D) Range

182. Fisher's index is the geometric mean of:
(A) Simple and weighted indices
(B) Laspeyres' and Paasche's indices
(C) Price and quantity indices
(D) Base year and current year indices

183. Which of the following errors is considered more serious in quality control contexts, often referred to as producer's risk?
(A) Type I error
(B) Type II error
(C) Sampling error
(D) Non-sampling error

184. Consider the simple linear regression model $Y_i = \beta_0 + \beta_1 x_i + u_i$. The assumption $E(u_i|x_i) = 0$ implies that:
(A) The error term has a constant variance.
(B) The model is linear in parameters.
(C) The explanatory variable is not correlated with the error term.
(D) The error terms for different observations are uncorrelated.

185. A variable is called predetermined in a simultaneous equation model if it is:
(A) An exogenous or a lagged endogenous variable.
(B) An endogenous variable.
(C) A purely random variable.
(D) A policy variable only.

186. Arrange the following estimators/models in the chronological order of their conceptual development and widespread application in econometrics.
I. Tobit Model
II. Logit/Probit Models
III. Ordinary Least Squares
IV. Two-Stage Least Squares
(A) III, IV, II, I
(B) III, II, IV, I
(C) II, III, I, IV
(D) I, III, II, IV

187. The term `d` in an ARIMA(p,d,q) model represents:
(A) The number of autoregressive terms.
(B) The number of moving average terms.
(C) The number of times the series needs to be differenced to become stationary.
(D) The degree of seasonality.

188. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : The order condition for identification is a necessary condition.
Reason (R) : If the order condition is not met, the equation will be under-identified, and it is impossible to derive unique estimates of its parameters, regardless of the rank condition.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

189. A key advantage of using the Probit or Logit model over the Linear Probability Model (LPM) is that:
(A) Probit/Logit models are linear in parameters.
(B) The predicted probabilities from Probit/Logit models are constrained to be between 0 and 1.
(C) Probit/Logit models assume the error term is normally distributed.
(D) Probit/Logit models are easier to estimate using OLS.

190. A time series that must be differenced once to become stationary is denoted as:
(A) I(0)
(B) I(1)
(C) I(2)
(D) I(-1)

191. The Central Limit Theorem is particularly important for statistical inference because it:
(A) Guarantees that the sample mean is always unbiased.

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171. For a symmetric distribution, the coefficient of skewness is:
(A) 1
(B) -1
(C) 0
(D) 3

172. If two variables are independent, their correlation coefficient will be:
(A) +1
(B) -1
(C) 0
(D) 0.5

173. What is a key advantage of cluster sampling over simple random sampling?
(A) It is more statistically efficient.
(B) It requires a smaller sample size for the same precision.
(C) It can be more cost-effective and practical when the population is geographically dispersed.
(D) It completely eliminates sampling error.

174. Which of the following statements about the t-test is correct?
(A) It is used to test hypotheses about a single population mean when the population standard deviation is known.
(B) It is used to test hypotheses about a single population mean when the population standard deviation is unknown and the sample size is small.
(C) It is used to test hypotheses about population variance.
(D) It is used to test for goodness of fit.

175. The assumption of homoscedasticity in a linear regression model means that:
(A) The mean of the error term is zero.
(B) The variance of the error term is constant for all values of the independent variables.
(C) The error terms are uncorrelated with each other.
(D) The independent variables are not correlated with the error term.

176. Consider the following approaches to estimating simultaneous equation models:
I. Ordinary Least Squares (OLS)
II. Indirect Least Squares (ILS)
III. Two-Stage Least Squares (2SLS)
IV. Three-Stage Least Squares (3SLS)
V. Maximum Likelihood (ML)
Which of the above statement(s) is/are correct for estimating parameters in a system of simultaneous equations (assuming non-recursive structure)?
(A) I, II, III only
(B) II, III, IV, V only
(C) I and V only
(D) III, IV, V only

177. Simultaneity bias in the estimation of a structural equation arises because:
(A) The dependent variable is correlated with the error term.
(B) An explanatory variable is endogenous and thus correlated with the error term.
(C) The model omits an important explanatory variable.
(D) The error terms have non-constant variance.

178. What is the primary reason for using discrete choice models instead of OLS when the dependent variable is binary?
(A) OLS coefficients are difficult to compute.
(B) OLS violates the assumptions of homoscedasticity and normality of errors, and predicted values can be outside the (0,1) range.
(C) OLS cannot handle more than one explanatory variable.
(D) R-squared is always low in OLS with a binary dependent variable.

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179. A stationary time series is one that:
(A) Has a constant mean and variance over time.
(B) Does not have a trend or seasonal component.
(C) Reverts to its long-run mean.
(D) All of the above.

180. The correlogram of the residuals from an ARIMA model is used for:
(A) Model identification
(B) Parameter estimation
(C) Diagnostic checking to see if the residuals are white noise.
(D) Forecasting future values.

(B) $P_{01} \times P_{10} = 1$
(C) The index for time 't' on '0' is the reciprocal of the index for '0' on 't'.
(D) The index remains unchanged if the price and quantity variables are interchanged.

203. The distribution of all possible sample means for a given sample size is called the:
(A) Population distribution
(B) Sample distribution
(C) Sampling distribution of the mean
(D) Standard normal distribution

204. Given below are two statements:
Statement I : A 95% confidence interval means there is a 95% probability that the true population parameter lies within the calculated interval.
Statement II : A wider confidence interval implies a lower degree of precision in the estimate.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

205. The Best in BLUE (Best Linear Unbiased Estimator) refers to:
(A) Maximum R-squared
(B) Zero bias
(C) Minimum variance
(D) Highest t-statistic

206. Match the violations of CLRM assumptions in List I with their consequences for the OLS estimator in List II.
List I: (Violation)
P. Heteroscedasticity
Q. Autocorrelation
R. Multicollinearity
S. Omitted Variable
List II: (Consequence)
1. Unbiased but inefficient
2. Biased and inconsistent
3. Unbiased but with large standard errors
4. Unbiased but inefficient
(A) P-1, Q-4, R-3, S-2
(B) P-3, Q-1, R-2, S-4
(C) P-2, Q-3, R-1, S-4
(D) P-1, Q-2, R-3, S-4

207. An equation in a simultaneous system is under-identified if the order condition (K-k < m-1) is not met. This implies:
(A) There are too many instrumental variables available.
(B) There are not enough predetermined variables excluded from the equation to serve as instruments.
(C) The equation can be estimated precisely using OLS.
(D) The model is perfectly specified.

208. The main purpose of the two-stage procedure in 2SLS is to:
(A) Purge the endogenous explanatory variable of its correlation with the stochastic error term.
(B) Increase the R-squared of the final model.
(C) Test for heteroscedasticity in the residuals.
(D) Simplify the model by removing insignificant variables.

209. In an ordered logit or probit model, the dependent variable is:
(A) Binary (0/1)
(B) Nominal with multiple categories
(C) Ordinal (has a natural ordering, e.g., 'low', 'medium', 'high')
(D) Continuous but censored

210. In time series analysis, differencing a series Yt is done by computing:
(A) Yt - Yt-1
(B) Yt / Yt-1
(C) log(Yt)
(D) Yt - mean(Y)

211. The expected value $E(x - \mu)^2$, where μ is the mean of x, defines the:
(A) Mean
(B) Variance
(C) Skewness
(D) Kurtosis

212. Which of the following is a key property of Spearman's rank correlation coefficient?
(A) It is suitable for data with a clear linear relationship only.
(B) It can measure the strength of any monotonic

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relationship (linear or non-linear).
(C) It requires the data to be normally distributed.
(D) Its value is always positive.

213. When a sample is drawn from a population, the difference between the sample statistic and the population parameter is referred to as:
(A) Non-sampling error
(B) Standard deviation
(C) Sampling error
(D) Bias

214. The rejection of a true null hypothesis in hypothesis testing is known as:
(A) Type II Error
(B) Correct Decision
(C) Type I Error
(D) The power of the test

215. The linearity in the CLRM assumption linear in parameters means that:
(A) The coefficients (parameters) enter the model in a linear way, not raised to a power or multiplied/divided by other parameters.
(B) The dependent variable must be a linear function of the independent variables.
(C) The regression equation must represent a straight line.
(D) The R-squared value must be close to 1.

216. Consider the following statements about simultaneous equation bias:
I. It occurs when an explanatory variable is endogenous.
II. It leads to biased and inconsistent OLS estimators.
III. It violates the CLRM assumption that $E(u_i|X_i) = 0$.
IV. It can be addressed by using instrumental variable techniques like 2SLS.
V. It does not occur in recursive models.
Which of the above statement(s) is/are correct?
(A) I, II, III only
(B) I, II, III, IV only
(C) II, III, IV, V only
(D) I, II, III, IV, V

217. A predetermined variable in the context of simultaneous equation models includes:
(A) Only current exogenous variables.
(B) Only lagged endogenous variables.
(C) Both current exogenous variables and lagged endogenous and exogenous variables.
(D) Only current endogenous variables.

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218. When choosing between Logit and Probit models, a practical consideration is that:
(A) The Probit model is always statistically superior.
(B) The coefficients of the two models are not directly comparable, but their marginal effects are often very similar.
(C) The Logit model is computationally more complex.
(D) The Logit model can only be used for binary outcomes, while Probit can be used for multinomial outcomes.

219. The correlogram of a stationary Autoregressive (AR) process typically shows:
(A) A sharp cut-off in the ACF and an exponentially decaying PACF.
(B) An exponentially decaying or sinusoidal ACF and a sharp cut-off in the PACF.
(C) Sharp cut-offs in both the ACF and PACF.
(D) A slow, linear decay in both the ACF and PACF.

220. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : Regressing one random walk on another is likely to produce a high R-squared and a significant t-statistic, even if the two are unrelated.
Reason (R) : This phenomenon, known as spurious regression, occurs because the non-stationarity in both series induces a common trend-like behavior, which OLS mistakenly interprets as a meaningful relationship.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

221. The skewness of a normal distribution is:
(A) 1

(B) -1
(C) 0
(D) 3

222. The most significant disadvantage of the range as a measure of dispersion is that it:
(A) Is difficult to calculate.
(B) Is based only on the two extreme values.
(C) Cannot be used for quantitative data.
(D) Is always negative.

223. Given below are two statements:
Statement I : The Central Limit Theorem applies only to populations that are normally distributed.
Statement II : The standard error of the sampling distribution of the mean is equal to the population standard deviation divided by the square root of the sample size.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both Statement I and Statement II are true
(B) Both Statement I and Statement II are false
(C) Statement I is true but Statement II is false
(D) Statement I is false but Statement II is true

224. If the computed value of the test statistic falls in the acceptance region, we:
(A) Reject the null hypothesis.
(B) Fail to reject the null hypothesis.
(C) Reject the alternative hypothesis.
(D) Decrease the level of significance.

225. Which of the following is a potential solution for dealing with heteroscedasticity?
(A) Using instrumental variables.
(B) Differencing the data.
(C) Using Weighted Least Squares (WLS) or robust standard errors.
(D) Increasing the sample size.

226. Match the econometricians in List I with their major contributions in List II.
List I: (Econometrician)
P. Robert Engle
Q. James Heckman
R. Daniel McFadden
S. Christopher Sims
List II: (Contribution)
1. Vector Autoregression (VAR) models
2. Models for sample selection bias (Heckman correction)
3. ARCH models for time-varying volatility
4. Discrete choice analysis (conditional logit)
(A) P-3, Q-2, R-4, S-1
(B) P-3, Q-4, R-2, S-1
(C) P-1, Q-2, R-3, S-4
(D) P-4, Q-1, R-2, S-3

227. The rank condition for the identification of a structural equation is:
(A) More difficult to apply than the order condition.
(B) Only a necessary condition.
(C) Both a necessary and sufficient condition.
(D) Both (A) and (C).

228. In the second stage of 2SLS, the original endogenous explanatory variable (x) is replaced by its predicted value (x-hat) from the first stage. This is done because:
(A) X-hat is, by construction, uncorrelated with the structural error term.
(B) X-hat has a smaller variance than X.
(C) X-hat is easier to observe in the data.
(D) X-hat is a perfect substitute for X in all respects.

229. Which model would be most appropriate for analyzing a dependent variable like number of doctor visits in a year (0, 1, 2, ...)?
(A) Logit model
(B) Tobit model
(C) Count data models like Poisson or Negative Binomial
(D) Linear probability model

230. The presence of a unit root in a time series implies that shocks to the series are:
(A) Temporary
(B) Permanent
(C) Seasonal
(D) Cyclical

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231. The kurtosis for a standard normal distribution (mesokurtic) is:
(A) 0
(B) 1
(C) 3
(D) -3

232. An index number is a:

(B) Justifies the use of the normal distribution for hypothesis testing with large samples, even if the population is not normal.
(C) Ensures that the sample variance is always equal to the population variance.
(D) Proves that all samples are representative of the population.

192. Quartile deviation is a measure of dispersion based on the:
(A) Highest and lowest values in the dataset.
(B) Middle 50 percent of the observations.
(C) Average deviation from the mean.
(D) All observations in the dataset.

193. A researcher selects a sample by choosing every 10th person from a list. This is an example of:
(A) Simple random sampling
(B) Stratified sampling
(C) Cluster sampling
(D) Systematic sampling

194. A test is 'one-tailed' when:
(A) The null hypothesis can be rejected from both sides of the distribution.
(B) The alternative hypothesis specifies a direction (e.g., greater than or less than).
(C) The sample size is very small.
(D) The test statistic follows a normal distribution.

195. Which of the following is NOT an assumption of the Classical Linear Regression Model (CLRM)?
(A) The relationship is linear in parameters.
(B) The error term has zero mean.
(C) All independent variables are quantitative.
(D) The variance of the error term is constant.

196. Consider the following statements about Two-Stage Least Squares (2SLS):
I. It is an instrumental variable (iv) estimation technique.
II. In the first stage, it creates predicted values for the endogenous explanatory variables.
III. In the second stage, it uses these predicted values to estimate the structural equation via OLS.
IV. It provides consistent estimates for over-identified equations.
Which of the above statement(s) is/are correct?
(A) I and II only
(B) I, II and IV only
(C) II, III and IV only
(D) I, II, III and IV

197. A definitional equation or an identity in a simultaneous equation system:
(A) Describes the behavior of economic agents.
(B) Is always under-identified.
(C) Has no error term and no unknown parameters to be estimated.
(D) Must be estimated using 2SLS.

198. The Tobit model is a suitable choice when the dependent variable is:
(A) Categorical with unordered outcomes.
(B) A count of events (e.g., 0, 1, 2, 3...).
(C) Continuous, but censored at or below a certain value (often zero).
(D) A time series with a structural break.

199. A moving average (MA) process of order 'q' in time series means that the current value of the series depends on:
(A) 'q' past values of the series itself.
(B) The current and 'q' past values of a random error term.
(C) 'q' past values of both the series and the error term.
(D) 'q' future values of the error term.

200. The problem of spurious regression can occur when:
(A) Two or more non-stationary time series that are not cointegrated are regressed on each other.
(B) Two or more stationary time series are regressed on each other.
(C) An important variable is omitted from the regression.
(D) The error terms are heteroscedastic.

201. Which of the following is a discrete probability distribution?
(A) Normal distribution
(B) Poisson distribution
(C) F-distribution
(D) Exponential distribution

202. The factor reversal test for an index number is satisfied if:
(A) $P_{01} \times Q_{01} = V_{01}$ (where V_{01} is the value ratio)

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(D) Binomial distribution

244. In a simple linear regression, the coefficient of determination (R^2) represents the:
(A) Correlation between the actual and predicted values of the dependent variable.
(B) Square of the correlation coefficient between the independent and dependent variables.
(C) Ratio of unexplained variation to total variation.
(D) Significance level of the F-statistic.

245. The problem of simultaneity leads to a violation of which key assumption of OLS?
(A) The error term has zero mean.
(B) The explanatory variables are uncorrelated with the error term.
(C) The errors are homoscedastic.
(D) The errors are not autocorrelated.

246. Consider the following statements about discrete choice models:
I. The Linear Probability Model (LPM) can produce predicted probabilities outside the 0-1 range.
II. The Logit model uses the cumulative logistic distribution function.
III. The Probit model uses the cumulative standard normal distribution function.
IV. The coefficients from Logit and Probit models are directly comparable in magnitude.
V. The Tobit model is suitable for censored dependent variables.
Which of the above statement(s) is/are correct?
(A) I, II, III only
(B) I, II, III, V only
(C) II, III, IV, V only
(D) I, II, III, IV, V

247. The correlogram of a Moving Average (MA) process of order q, MA(q), will show:
(A) A sharp cut-off in the ACF at lag q.
(B) An exponential decay in the ACF.
(C) A sharp cut-off in the PACF at lag q.
(D) An exponential decay in the PACF.

248. Given below are two statements: one is labeled as Assertion (A) and the other is labeled as Reason (R).
Assertion (A) : A stationary time series is mean-reverting.
Reason (R) : Shocks to a stationary series are temporary, and over time the series tends to return to its long-run mean level.
In the light of the above statements, choose the correct answer from the options given below:
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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249. Which of the following is NOT a measure of central tendency?
(A) Mean
(B) Median
(C) Mode
(D) Standard Deviation

250. The purpose of hypothesis testing is to:
(A) Determine if there is enough statistical evidence to infer that a certain condition is true for a population.
(B) Prove that a theory is correct.
(C) Calculate the exact value of a population parameter.
(D) Summarize sample data into a single number.

Direction : Please read the following source carefully.

Probability theory provides the mathematical foundation for statistics and econometrics, dealing with uncertainty and randomness. The core concept of probability is a numerical measure of the likelihood that an event will occur, ranging from 0 (impossibility) to 1 (certainty). Building upon this are probability distributions, which describe how the values of a random variable are distributed. These distributions are characterized by their moments, which are a set of statistical parameters that measure specific aspects of the distribution's shape. The first moment is the mean (a measure of central location), the second central moment is the variance (a measure of spread), and higher-order moments like skewness and kurtosis describe asymmetry and tailedness, respectively. A cornerstone of statistical inference is the Central Limit Theorem (CLT). The CLT posits that, given a sufficiently large sample size

the parameter estimates from the sample data. 'Linear' means that the estimator is a linear function of the dependent variable. 'Unbiased' implies that, on average, the estimator will yield the true value of the population parameter; its expected value is equal to the true parameter value. 'Best' signifies that among all linear unbiased estimators, this particular estimator has the minimum variance. This means it is the most efficient and precise. The Gauss-Markov theorem states the conditions under which the Ordinary Least Squares (OLS) estimator for the coefficients in a linear regression model is BLUE. Therefore, having an estimator with BLUE properties ensures the highest quality of estimation within the class of linear and unbiased estimators.

Based on the above source, attempt the following five questions.

276. What does the 'Unbiased' property of an estimator signify?
(A) That the estimator's expected value is equal to the true parameter value.
(B) That the estimator has the smallest possible variance.
(C) That the estimator is a linear function of the dependent variable.
(D) That the estimator is derived from a linear regression model.

277. The term 'Best' in the BLUE acronym refers to the estimator having:
(A) the highest possible bias.
(B) a non-linear relationship with the data.
(C) the maximum possible variance.
(D) the minimum variance among all linear unbiased estimators.

278. According to the text, what is the significance of an estimator being BLUE?
(A) It guarantees that the regression model is perfectly specified.
(B) It indicates the highest quality of estimation within its class.
(C) It means the estimator is applicable only to non-linear models.
(D) It proves that the independent variables cause the dependent variable.

279. What does the 'Linear' characteristic of a BLUE estimator imply?
(A) The underlying economic relationship must be a straight line.
(B) The estimator has zero variance.
(C) The estimator is a linear function of the dependent variable.
(D) The estimator is always positive.

280. The passage states that the Ordinary Least Squares (OLS) estimator is BLUE under the conditions specified by which theorem?
(A) The Central Limit Theorem.
(B) The BLUE property theorem.
(C) The Linear Estimator Theorem.
(D) The Gauss-Markov Theorem.

Direction : Please read the following source carefully.

In the context of econometric modeling, particularly with simultaneous equation models, the Identification Problem is a fundamental challenge that must be addressed before estimation can proceed. This problem concerns whether it is possible to obtain unique numerical estimates for the structural parameters of a model from the estimated reduced-form coefficients. A structural model represents the underlying economic theory, with equations that depict theoretical relationships (e.g., a demand equation and a supply equation). The reduced-form of the model expresses the endogenous variables solely in terms of the exogenous variables and the stochastic error terms. If a structural equation is unidentified, it means that different sets of structural parameter values could be consistent with the same reduced-form model. In such a case, the data from the reduced form cannot provide any information to help distinguish between these different structural parameters, making estimation impossible. An equation might be exactly identified, meaning a unique set of parameter estimates can be found, or overidentified, where there is more than one way to estimate the structural parameters. A necessary (but not sufficient) condition for identification, the order condition, relates the number of variables included and excluded from the equation.

Based on the above source, attempt the following five questions.

281. The Identification Problem, as described in the passage, is primarily concerned with:
(A) whether unique estimates for structural

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(A) To quantify the spread of data points within a dataset.
(B) To identify a representative value for the center of a distribution.
(C) To determine the difference between the highest and lowest values.
(D) To calculate the average of the squared differences from the mean.

257. According to the text, what do measures of dispersion quantify?
(A) The most frequently occurring value in a dataset.
(B) The middle value in an ordered set of data.
(C) The arithmetic average of all data points.
(D) The degree of variation or spread among data points.

258. A dataset with a high standard deviation would imply that:
(A) the data points are spread out over a considerable range.
(B) the data points are closely packed around the mean.
(C) the mean, median, and mode are all identical.
(D) the dataset has a very small range.

259. The passage suggests that the choice of a measure of central tendency is influenced by which factor?
(A) The size of the standard deviation.
(B) The total number of data points in the dataset.
(C) The data's distribution and the existence of outliers.
(D) The value of the range.

260. Which of the following is explicitly mentioned as a measure of dispersion?
(A) The variance.
(B) The median.
(C) The mode.
(D) The mean.

Direction : Please read the following source carefully.

Beyond summarizing the characteristics of a single variable, descriptive statistics also provides tools to examine the relationship between variables and to track changes over time. Correlation is a statistical measure that expresses the extent to which two variables are linearly related, meaning they change together at a constant rate. A correlation coefficient, which ranges from -1 to +1, quantifies the direction and strength of this relationship. A positive correlation indicates that as one variable increases, the other tends to increase, while a negative correlation suggests that as one variable increases, the other tends to decrease. A correlation near zero implies a weak or non-existent linear relationship. It is crucial to remember that correlation does not imply causation. Separately, Index Numbers are specialized statistical devices designed to measure the relative change in the magnitude of a variable or a group of related variables over time or between locations. They are often used in economics to track price levels (e.g., Consumer Price Index), production quantities, or stock market values. By expressing data relative to a base period or location (which is typically set to 100), index numbers simplify comparisons and help in understanding trends and economic conditions.

Based on the above source, attempt the following five questions.

261. What is the primary purpose of an index number as described in the text?
(A) To measure the strength and direction of a linear relationship between two variables.
(B) To establish a causal link between economic phenomena.
(C) To identify the central tendency and dispersion of a single dataset.
(D) To measure relative changes in a variable or group of variables over time.

262. A correlation coefficient of -0.9 would indicate which of the following?
(A) A strong positive linear relationship.
(B) A strong negative linear relationship.
(C) A weak negative linear relationship.
(D) An almost non-existent linear relationship.

263. The passage highlights a critical limitation of correlation analysis, which is that:
(A) it cannot measure the direction of a relationship.
(B) it only applies to data from a base period set to 100.
(C) it does not demonstrate or prove causation

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between variables.
(D) it is less effective than an index number for showing relationships.

264. How do index numbers facilitate the comparison of data?
(A) By showing the correlation between two unrelated variables.
(B) By proving that one variable causes another to change.
(C) By calculating the average of a group of variables.
(D) By expressing data in relation to a common base value.

265. Based on the source, which concept is concerned with quantifying the degree to which two variables move together?
(A) Correlation.
(B) Index numbers.
(C) Measures of central tendency.
(D) Measures of dispersion.

Direction : Please read the following source carefully.

In many research scenarios, studying an entire population is impractical or impossible due to constraints of time, cost, or accessibility. Consequently, researchers rely on sampling, which is the process of selecting a subset of individuals from within a statistical population to estimate characteristics of the whole population. The choice of sampling method is critical to ensure that the selected subset is representative of the larger population. These methods can be broadly categorized, for instance, into probability and non-probability sampling techniques. The validity of inferences drawn from a sample depends heavily on the method used. Once a sample is drawn, its statistics (like the sample mean or sample proportion) are used to make inferences. The concept of a Sampling Distribution is fundamental to this process. A sampling distribution is the theoretical probability distribution of a statistic obtained from all possible samples of a specific size (n) from a population. For example, the sampling distribution of the mean is the distribution of all possible sample means. Understanding the properties of this distribution, such as its mean, variance, and shape, allows statisticians to quantify the uncertainty associated with a sample statistic as an estimate of a population parameter.
Based on the above source, attempt the following five questions.

266. What is the primary reason for using sampling in research, according to the passage?
(A) To study every individual in the population for maximum accuracy.
(B) To overcome the impracticality of studying an entire population.
(C) To create a theoretical probability distribution of a statistic.
(D) To ensure the sampling distribution is always normal.

267. The text defines a Sampling Distribution as:
(A) the method used to select a subset of individuals from a population.
(B) the probability distribution of a statistic from all possible samples of a given size.
(C) the distribution of data within a single, specific sample.
(D) the set of constraints like time and cost that limit research.

268. The validity of statistical inferences made from a sample is described as being highly dependent on:
(A) the sampling method employed.
(B) the size of the entire population.
(C) the number of variables being studied.
(D) the final value of the sample mean.

269. Why is the concept of a sampling distribution considered fundamental?
(A) Because it provides a method for selecting a sample.
(B) Because it is the same as the distribution of the population.
(C) Because it helps in quantifying the uncertainty of a sample statistic.
(D) Because it guarantees the sample is perfectly representative.

270. What is the relationship between a sample statistic and a population parameter?
(A) A population parameter is a subset of a sample statistic.
(B) The two terms are synonymous and interchangeable.

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(C) A population parameter is calculated from all possible sampling distributions.
(D) A sample statistic is used to estimate a population parameter.

Direction : Please read the following source carefully.

Statistical inference is the process of using data analysis to deduce properties of an underlying probability distribution. It involves drawing conclusions about a population or a theoretical model based on evidence from a sample. A primary framework for this process is Hypothesis Testing. Hypothesis testing is a formal procedure for investigating our ideas about the world using statistics. It begins with the formulation of two competing hypotheses: the null hypothesis (H_0), which typically represents a statement of no effect or no difference, and the alternative hypothesis (H_1), which represents the research claim or the presence of an effect. The procedure involves collecting sample data and calculating a test statistic. This statistic is then used to determine the probability of observing such a result, or one more extreme, if the null hypothesis were true. If this probability (often called the p-value) is very low (typically below a pre-specified significance level, α), the null hypothesis is rejected in favor of the alternative hypothesis. This allows researchers to make a probabilistic decision about the validity of their claims, moving from sample-specific observations to broader, generalizable conclusions about the population.

Based on the above source, attempt the following five questions.

271. What is the fundamental goal of statistical inference?
(A) To describe the characteristics of a specific sample only.
(B) To formulate a null hypothesis that is always true.
(C) To draw conclusions about a population based on sample data.
(D) To ensure the p-value is always greater than the significance level.

272. In hypothesis testing, what does the null hypothesis (H_0) typically represent?
(A) The research claim that the investigator wants to prove.
(B) A statement of no effect, no difference, or status quo.
(C) The conclusion that is accepted when the p-value is very low.
(D) The probability of observing an extreme result.

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273. A researcher rejects the null hypothesis. According to the text, what is the most likely reason for this decision?
(A) The alternative hypothesis was proven to be false.
(B) The sample data was found to be perfectly representative of the population.
(C) The null hypothesis and alternative hypothesis were identical.
(D) The probability of observing the sample result, if H_0 were true, was very low.

274. What role does the test statistic play in hypothesis testing?
(A) It is a value calculated from sample data to help decide between hypotheses.
(B) It is the pre-specified significance level for the test.
(C) It is the same as the null hypothesis.
(D) It is the final conclusion about the population parameter.

275. The process of hypothesis testing allows a researcher to move from:
(A) a population parameter to a sample statistic.
(B) a descriptive statistic to a population.
(C) a sample-specific observation to a general conclusion.
(D) an alternative hypothesis to a null hypothesis.

Direction : Please read the following source carefully.

In econometrics, the Linear Regression Model is a workhorse tool used to model the relationship between a dependent variable and one or more independent variables. The goal is to estimate the model's parameters (the coefficients) in a way that best fits the data. The quality of these estimated parameters is assessed based on certain desirable statistical properties. A key benchmark in this assessment is the BLUE property, which stands for Best Linear Unbiased Estimator. 'Estimator' refers to the rule or formula used to calculate

from a population with a finite level of variance, the sampling distribution of the mean will be approximately normally distributed, regardless of the population's original distribution. This theorem is pivotal as it allows for the construction of confidence intervals and hypothesis tests even when the underlying population distribution is unknown.

Based on the above source, attempt the following five questions.

251. According to the text, what is the primary function of probability theory in the context of statistics and econometrics?
(A) To provide definitive outcomes for all economic events.
(B) To serve as the mathematical framework for handling uncertainty.
(C) To exclusively calculate the moments of a distribution.
(D) To ensure all data conforms to a normal distribution.

252. What do the moments of a probability distribution primarily describe?
(A) The specific shape and characteristics of the distribution.
(B) The sample size required for an analysis.
(C) The temporal sequence of data collection.
(D) The probability of an event being either 0 or 1.

253. The Central Limit Theorem is described as being pivotal for statistical inference mainly because it:
(A) guarantees that every population has a finite level of variance.
(B) proves that the first moment of any distribution is always the mean.
(C) states that the sampling distribution of the mean approximates normality for large samples.
(D) requires the underlying population distribution to be known and normal.

254. Based on the passage, which of the following represents a measure of a distribution's spread or dispersion?
(A) The first moment.
(B) The concept of probability itself.
(C) The Central Limit Theorem.
(D) The second central moment.

255. If a researcher is working with data from a population with an unknown distribution, under what condition can they still make reliable inferences about the sample mean using normal distribution properties?
(A) Only if the population variance is proven to be zero.
(B) When the first moment equals the second central moment.
(C) When the sample size is sufficiently large, due to the Central Limit Theorem.
(D) If the probability of every event is exactly 0.5.

Direction : Please read the following source carefully.

Descriptive statistics are fundamental tools used to summarize and organize data in a meaningful way, providing a simplified overview of a dataset's main features. Within this domain, measures of central tendency and measures of dispersion are paramount. Measures of central tendency aim to identify a single value that best represents the center or typical value of a distribution. Common examples include the mean (the arithmetic average), the median (the middle value in an ordered dataset), and the mode (the most frequently occurring value). The choice among these measures depends on the data's distribution and the presence of outliers. On the other hand, measures of dispersion, also known as measures of variability or spread, describe the extent to which data points in a distribution differ from the average value. Key measures include the range (the difference between the highest and lowest values), variance (the average of the squared differences from the mean), and standard deviation (the square root of the variance). These measures are crucial for understanding the heterogeneity and consistency within a dataset. A low dispersion indicates that data points are clustered tightly around the central value, whereas high dispersion signifies that they are spread out over a wider range.

Based on the above source, attempt the following five questions.

256. What is the principal objective of using measures of central tendency?

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parameters can be obtained.
(B) choosing the correct set of independent variables for a model.
(C) ensuring the error terms in a model are normally distributed.
(D) calculating the coefficients of the reduced-form model.

282. What does it mean if a structural equation is unidentified?
(A) The equation is over-determined with too much information for estimation.
(B) A unique set of structural parameter values cannot be determined from the data.
(C) The reduced-form coefficients cannot be estimated from the data.
(D) The underlying economic theory is incorrect.

283. According to the text, what is the relationship between a structural model and its reduced-form?
(A) The structural model is derived from the estimated reduced-form coefficients.
(B) The reduced-form expresses endogenous variables in terms of exogenous variables.
(C) The two forms are identical and used interchangeably.
(D) The reduced-form represents the underlying economic theory directly.

284. The passage mentions the order condition for identification. What is its role?
(A) It is a necessary condition that relates the number of variables in the model.
(B) It is a sufficient condition that guarantees an equation is identified.
(C) It is a method for estimating the parameters of an unidentified equation.
(D) It is a rule for transforming a structural model into a reduced-form model.

285. If an equation is over identified, what does this imply?
(A) Estimation is impossible because no parameter values can be found.
(B) The model has no endogenous variables.
(C) There is more than one way to derive estimates for the structural parameters.
(D) The structural parameters are equal to the reduced-form coefficients.

Direction : Please read the following source carefully.

Simultaneous Equation Models are a class of statistical models in which the dependent variables are functions of other dependent variables, as well as exogenous variables. These models are common in economics where variables like price and quantity are determined jointly by the interaction of supply and demand. Within this class, a crucial distinction exists between recursive and non-recursive models. A recursive model is one where the causal flow among the endogenous variables is unidirectional. This means the system can be ordered such that the first equation's endogenous variable is determined solely by exogenous variables; the second equation's endogenous variable depends on exogenous variables and the first endogenous variable; and so on. In this structure, there is no feedback loop. The covariance between the error terms of different equations is assumed to be zero. In contrast, a non-recursive model involves simultaneity or feedback loops, where an endogenous variable can affect another endogenous variable which, in turn, affects the first one, either directly or indirectly through a chain of other variables. This bidirectional causality is the defining feature of non-recursive systems. This distinction is critical because recursive models can often be estimated using Ordinary Least Squares (OLS) on an equation-by-equation basis, whereas non-recursive models typically require more advanced estimation techniques to handle the simultaneity and avoid biased and inconsistent estimates.

Based on the above source, attempt the following five questions.

286. What is the defining characteristic of a Simultaneous Equation Model?
(A) All variables in the model are exogenous.
(B) Each equation can be estimated independently using OLS without issue.
(C) The causal flow is strictly unidirectional in all cases.
(D) The dependent variables are functions of other dependent variables.

287. According to the text, what key feature distinguishes a recursive model from a non-recursive model?
(A) The number of exogenous variables in the

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system.
(B) The use of economic data versus other types of data.
(C) The presence of bidirectional causality or feedback loops in non-recursive models.
(D) The assumption that error terms are always correlated in recursive models.

288. In a recursive model, the causal relationship among the endogenous variables is described as:
(A) bidirectional.
(B) unidirectional.
(C) cyclical.
(D) non-existent.

289. Why is the distinction between recursive and non-recursive models considered critical for estimation?
(A) Because non-recursive models always have fewer equations than recursive models.
(B) Because only non-recursive models are used in modern economics.
(C) Because recursive models do not allow for exogenous variables.
(D) Because recursive models can often be estimated with OLS, while non-recursive models cannot.

290. Which type of model is characterized by the potential for a variable to affect another variable that in turn affects the original variable?
(A) A non-recursive model.
(B) A recursive model.
(C) A linear regression model with only exogenous variables.
(D) A descriptive statistics model.

Direction : Please read the following source carefully.

While standard linear regression models are designed to handle dependent variables that are continuous, many economic and social phenomena involve choices that are inherently discrete. Discrete Choice Models are a class of econometric models developed specifically to analyze situations where the decision-maker chooses from a finite set of alternatives. In these models, the dependent variable is qualitative, representing a choice or a category rather than a continuous quantity. For example, a person's decision to work or not to work, the choice of transportation mode (car, bus, or train), or a firm's decision to enter a market are all discrete outcomes. These models are based on the principle of utility maximization; it is assumed that an individual chooses the alternative that provides them with the highest level of utility. Since utility is not directly observable, it is modeled as a function of the attributes of the alternatives and the characteristics of the decision-maker, along with a stochastic component. The output of a discrete choice model is typically the probability that a decision-maker will choose a particular alternative. Popular examples of such models, although not explicitly named here, include logit and probit models. The key departure from linear regression is the qualitative nature of the outcome variable being explained.

Based on the above source, attempt the following five questions.

291. What is the primary purpose of Discrete Choice Models?
(A) To analyze dependent variables that are continuous and quantitative.
(B) To confirm that all economic decisions are based on observable utility.
(C) To model situations involving a choice from a finite set of alternatives.
(D) To ensure the dependent variable in a regression is always a linear function.

292. The dependent variable in a discrete choice model is best described as:
(A) qualitative and categorical.
(B) quantitative and continuous.
(C) always having a normal distribution.
(D) a measure of unobservable utility.

293. The underlying theoretical principle of discrete choice models, as mentioned in the text, is:
(A) the Central Limit Theorem.
(B) the Gauss-Markov theorem.
(C) the law of large numbers.
(D) the principle of utility maximization.

294. What kind of output does a discrete choice model typically produce?
(A) A definitive choice for every individual.
(B) The probability of choosing a specific alternative.
(C) The exact, observable utility value for each

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alternative.
(D) A continuous prediction of the dependent variable.

295. How do the concept of utility function in discrete choice models?
(A) It is directly observed and measured for each individual.
(B) It is irrelevant to the decision-making process described.
(C) It is modeled as a function of attributes and characteristics plus a random component.
(D) It is only used when the dependent variable is continuous.

Direction : Please read the following source carefully.

Time Series Analysis is a specialized branch of statistics and econometrics concerned with analyzing data points collected over a sequence of time. Unlike cross-sectional data, which observes many subjects at a single point in time, time series data involves observations on a single entity or variable over multiple time periods (e.g., monthly GDP, daily stock prices). This temporal ordering is a critical feature, as it introduces dependencies and patterns that are not present in cross-sectional data. Key objectives of time series analysis include identifying the nature of the phenomenon represented by the sequence of observations, and forecasting future values. The analysis often begins by decomposing a time series into several components: a trend (long-term direction), seasonality (systematic, calendar-related fluctuations), cyclical components (medium-term fluctuations around the trend), and irregular or random fluctuations. A fundamental concept in modern time series econometrics is stationarity, a statistical property of a time series where its statistical properties such as mean, variance, and autocorrelation are constant over time. Many time series models require the data to be stationary, or to be transformed into a stationary series, for valid inference and forecasting. Ignoring the unique characteristics of time series data can lead to spurious regression results and unreliable conclusions.

Based on the above source, attempt the following five questions.

296. What is the defining characteristic of time series data?
(A) It involves many subjects observed at a single point in time.
(B) The data is always stationary without any transformation.
(C) It is exclusively used for identifying cyclical components.
(D) The data points are collected in a specific temporal order.

297. The passage describes stationarity as a property where:
(A) the statistical properties of the series are constant over time.
(B) a time series exhibits a clear upward or downward trend.
(C) the data contains strong seasonal fluctuations.
(D) future values can be forecasted with perfect accuracy.

298. According to the text, a primary objective of time series analysis is to:
(A) remove the temporal ordering from the data to simplify it.
(B) identify patterns and forecast future values.
(C) prove that all economic data is random and unpredictable.
(D) convert time series data into cross-sectional data.

299. Which of the following is mentioned as a component that a time series can be decomposed into?
(A) The BLUE estimator.
(B) The seasonality component.
(C) The null hypothesis.
(D) The reduced-form coefficient.

300. The passage warns that ignoring the unique features of time series data can result in:
(A) spurious regression results.
(B) perfectly accurate forecasts.
(C) a stationary time series.
(D) an increase in data quality.

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ANSWERS

1. (B) Classical approach
The classical approach to probability defines the likelihood of an event based on the assumption that all outcomes in a sample space are equally likely to occur. It calculates the probability by taking the ratio of outcomes favorable to a specific event to the total number of possible outcomes. This theoretical framework provides a precise mathematical basis for analyzing experiments where outcomes are symmetrical and finite.

2. (A) Mean
In probability theory, the first moment calculated about the origin is equivalent to the expected value of the random variable. This value represents the arithmetic mean of the distribution, providing a measure of its central location. It is the average value around which the distribution is centered and serves as a fundamental building block for describing the properties and behaviors of various statistical and probability distributions.

3. (C) Statement I is true but Statement II is false
The median is a robust measure of central tendency because it identifies the middle value, making it less sensitive to extreme outliers than the mean. However, the mode represents the most frequently occurring value in a dataset and is not necessarily unique. A distribution can be bimodal or multimodal if multiple values share the highest frequency, or it may have no mode if all values occur once.

4. (D) Every population unit has an equal and independent chance of selection.
Simple random sampling is a core probability sampling technique where every member of a population has an identical and non-zero probability of being selected. This process ensures that the selection of one individual does not affect the likelihood of selecting another, thereby ensuring independence. By providing an equal chance for all units, this method helps minimize selection bias and allows for valid statistical inferences about populations.

5. (C) A Type I error is rejecting a true null hypothesis, while a Type II error is failing to reject a false null hypothesis.
Hypothesis testing involves two specific types of decision errors related to the null hypothesis. A Type I error, often called a false positive, occurs when a researcher incorrectly rejects a null hypothesis that is actually true. Conversely, a Type II error, or a false negative, happens when a researcher fails to reject a null hypothesis that is false. Balancing these risks is critical for rigorous statistical analysis.

6. (B) Best Linear Unbiased Estimator
In the context of the Gauss-Markov theorem, the property of being the best linear unbiased estimator is a hallmark of efficiency. It indicates that among all possible linear and unbiased estimators, the one produced by ordinary least squares has the minimum variance. Being linear means the estimator is a linear function of the data, while being unbiased ensures its expected value equals the true population parameter.

7. (D) Simultaneous equation models
The identification problem is a fundamental issue in econometrics specifically related to simultaneous equation systems. It concerns whether the structural parameters of a model can be uniquely determined from the information contained in the reduced-form equations. If an equation is not identified, multiple sets of structural coefficients could lead to the same observed data, making it impossible to obtain unique and meaningful estimates for the variables.

8. (A) There is feedback from a later equation to an earlier one.
A recursive model is a specific type of simultaneous equation system characterized by a unidirectional causal flow. In these models, there is no feedback loop between equations, meaning a variable determined in a later equation does not influence variables in preceding equations. This structure allows the equations to be estimated sequentially using

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ordinary least squares, provided that the error terms across the different equations remain uncorrelated.

9. (C) Logit or Probit model

When the dependent variable is binary, representing a choice between two distinct outcomes, standard linear regression is often inappropriate. Logit and probit models are designed for these discrete choices by using non-linear functions to ensure that predicted probabilities always fall between zero and one. These models differ primarily in their assumptions regarding the distribution of the error term, using either a logistic or a normal distribution.

10. (A) Its mean, variance, and auto correlation are constant over time.

A time series is considered weakly stationary if its fundamental statistical properties do not change as time progresses. This requires that the mean and variance remain constant throughout the series and that the covariance between two observations depends only on the time lag between them, not the specific point in time. Stationarity is a critical assumption for many time series models to ensure reliable forecasting and inference.

11. (B) I, III and IV only

The Pearson correlation coefficient is a unit-free statistical measure used to quantify the strength and direction of a linear relationship between two variables. Its value is strictly bounded between negative one and positive one. While it effectively identifies linear associations, it may not capture non-linear relationships. Furthermore, a correlation of zero does not necessarily imply independence, as a strong non-linear relationship could still exist.

12. (B) P(A) * P(B)

According to the multiplication rule for independent events, the probability of two independent events occurring together is the product of their individual probabilities. Independence means that the occurrence of one event provides no information about the likelihood of the other. This mathematical relationship is a fundamental property in probability theory and simplifies the calculation of joint probabilities for processes where events do not exert influence over each other.

13. (C) The large-sample distribution of means is approximately normal.

The central limit theorem states that as a sample size becomes sufficiently large, the sampling distribution of the sample mean will approach a normal distribution, regardless of the population's original distribution shape. This convergence typically occurs when the sample size exceeds thirty. This theorem is vital for statistical inference, as it allows for the application of normal-based tests and confidence intervals even when dealing with non-normal populations.

14. (A) P-3, Q-4, R-1, S-2

Statistical tools are utilized for specific analytical purposes in data science. The mean identifies the central point of a distribution, while the standard deviation measures the extent of spread or dispersion. The correlation coefficient evaluates the nature of linear relationships between variables. Index numbers are specialized averages used to measure relative changes in economic variables, such as prices or production quantities, over a specific period.

15. (A) Difference between a sample statistic and the corresponding population parameter.

Sampling error is the inherent discrepancy that arises because data is collected from a sample rather than the entire population. It represents the numerical difference between a sample statistic, such as the sample mean, and the true population parameter. While this error is unavoidable in random sampling, its magnitude can be estimated and generally decreases as the sample size increases, improving the precision of estimates.

16. (B) Making a Type I error.

In statistical hypothesis testing, the level of significance represents the maximum probability that a researcher is willing to accept of making a Type I error. This error occurs when a true null hypothesis is incorrectly rejected. By setting this threshold, typically at one or five percent, the researcher establishes a strict criterion for determining whether the observed

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sample evidence is strong enough to justify rejecting the null hypothesis.

17. (A) Both A and R are true and R is the correct explanation of A.
In simultaneous equation models, endogenous variables often appear as explanatory variables in other equations, creating a feedback loop. This leads to a correlation between the regressors and the error terms, violating a primary assumption of ordinary least squares. Consequently, OLS estimators become biased and inconsistent in this context. Therefore, the presence of these correlations directly explains why traditional estimation methods fail to provide accurate parameter results.

18. (A) The number of excluded exogenous variables must be greater than or equal to the number of endogenous variables in the equation minus one.
The order condition is a necessary requirement for the identification of a structural equation within a simultaneous system. It stipulates that the number of predetermined variables excluded from a specific equation must be at least as large as the number of endogenous variables included in that equation minus one. Meeting this condition ensures that there is enough information to uniquely estimate the coefficients of the structural model.

19. (C) The causal flow is unidirectional, and OLS can be applied to each equation sequentially.
A recursive system is a special case of simultaneous equations where the causal relationships between variables move in only one direction. Because there are no feedback loops and the error terms are assumed to be independent across equations, the system avoids simultaneity bias. This unique structure allows for the consistent estimation of each equation individually using ordinary least squares, following the established sequence of causality.

20. (D) ARIMA model
Discrete choice models, such as logit, probit, and multinomial logit, are used when the dependent variable represents a choice among a finite set of categories. These models analyze the probability of choosing a specific option based on various predictors. In contrast, the ARIMA model is a time series forecasting technique used for continuous data, focusing on auto regressive and moving average components rather than categorical outcomes.

21. (C) Trend
The trend component of a time series represents the long-term progression or underlying direction of the data over an extended period. It reflects persistent movements that are not influenced by seasonal or cyclical fluctuations. Trends can be upward, downward, or horizontal and are often driven by fundamental factors such as technological changes, population growth, or long-term economic shifts, providing a clear view of the overall path.

22. (B) 5/14
To calculate the probability of drawing two red balls without replacement, we multiply the individual probabilities of each draw. The probability of the first ball being red is five out of eight. Since the ball is not replaced, the probability of the second ball being red is four out of seven. Multiplying these fractions yields twenty out of fifty-six, which simplifies to five over fourteen as the final probability.

23. (D) Mode
The mode is the value that occurs with the highest frequency in a distribution. In a histogram, which displays the frequency of data within specific intervals, the mode corresponds to the highest point of the tallest bar. This allows for a quick and direct graphical identification of the most common value or class in the dataset, unlike the mean or median, which usually require more complex calculations.

24. (A) Both Statement I and Statement II are true
Stratified sampling improves precision by dividing a population into homogeneous subgroups and sampling from each. This ensures all segments are represented. Cluster sampling involves dividing the population into groups that are ideally as heterogeneous as possible within themselves, while being similar to other clusters. Both methods are valid probability sampling techniques, each offering specific advantages depending on the geographical distribution and internal characteristics of the target population.

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25. (C) Smallest level of significance at which the null hypothesis can be rejected.

The p-value is a critical metric in hypothesis testing that quantifies the strength of evidence against the null hypothesis. It represents the exact probability of observing the sample data, or something more extreme, if the null hypothesis were true. Consequently, it indicates the minimum significance level at which the results would be considered statistically significant, allowing researchers to make informed decisions about whether to reject the hypothesis.

26. (A) There is no auto correlation between the disturbances.

A fundamental assumption of the classical linear regression model is the absence of auto correlation, meaning that the error terms for different observations are not correlated with each other. This ensures that the information contained in one observation's disturbance provides no information about another's. Violating this assumption, common in time series data, leads to inefficient estimators and invalidates standard statistical tests used for hypothesis testing and inference.

27. (C) I, II, III, IV only

The Gauss-Markov theorem establishes that ordinary least squares estimators are the best linear unbiased estimators under specific assumptions. This means they are linear functions of the data, their expected values equal the true parameters, and they have the minimum variance among all unbiased linear estimators. While consistency is a desirable large-sample property, it does not define the BLUE status, which focuses on efficiency and lack of bias.

28. (B) The number of excluded exogenous variables is greater than the number of included endogenous variables minus one.

An equation is over-identified when the information provided by excluded exogenous variables is more than sufficient to obtain unique estimates of the structural parameters. According to the order condition, this occurs when the count of excluded predetermined variables exceeds the count of included endogenous variables minus one. In such scenarios, multiple estimates can be derived from the data, and specialized techniques like two-stage least squares are used.

29. (C) Assumption about the distribution of the error term.

Logit and probit models are both used for binary choice analysis but differ in their underlying distributional assumptions. The logit model assumes that the error term follows a cumulative logistic distribution, which has slightly heavier tails. In contrast, the probit model assumes that the error term follows a cumulative standard normal distribution. Despite these theoretical differences, both models often produce very similar results when estimating probabilities in practical applications.

30. (B) II, I, III, IV

Constructing a price index follows a logical sequence to ensure accuracy and relevance. First, the specific commodities to be included must be selected based on the purpose of the index. Next, a suitable base period is chosen for comparison. Prices for these items are then collected from various sources. Finally, an appropriate mathematical formula, such as Laspeyres or Paasche, is applied to calculate the final index value.

31. (A) Probability density function

A continuous random variable can take any value within a specified range, making it impossible to assign probabilities to individual points. Instead, its distribution is described by a probability density function, where the area under the curve over an interval represents the probability of the variable falling within that range. This function provides a complete description of the likelihood of various outcomes for measurements like height or weight.

32. (B) Mean < Median < Mode

In a negatively skewed distribution, the tail of the data extends toward the lower values on the left. This skewness pulls the arithmetic mean toward the tail, making it the smallest of the three measures of central tendency. The median occupies the middle position, while the mode remains at the peak of the distribution. This relationship highlights how extreme low values disproportionately affect the mean compared to the median.

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33. (A) Both A and R are true and R is the correct explanation of A.

The central limit theorem is fundamental to statistical inference because it provides a bridge between sample statistics and population parameters. It asserts that for large samples, the sampling distribution of the mean is approximately normal, even if the population itself is not. This property allows researchers to use normal-based tests to make reliable inferences about a population when only the sample mean and a sufficiently large sample size are available.

34. (A) Sampling frame

A sampling frame is a comprehensive list or map of all the individual elements within a population from which a sample is to be drawn. It serves as the operational definition of the target population and is essential for implementing probability sampling methods. An accurate and complete frame ensures that every unit has a known chance of selection, thereby reducing coverage errors and helping to maintain the representativeness of the sample.

35. (C) Reject the null hypothesis.

In hypothesis testing, the decision to reject the null hypothesis is based on comparing the calculated test statistic with the critical value. If the absolute value of the test statistic is greater than the critical value, it indicates that the observed result is unlikely to have occurred by chance under the null hypothesis. In this case, since 2.5 exceeds 1.96, the evidence is sufficient to reject the null hypothesis.

36. (A) P-3, Q-1, R-4, S-2

Regression analysis faces several common issues that affect estimator reliability. Multicollinearity occurs when independent variables are highly correlated, making individual effects hard to isolate. Heteroscedasticity involves a non-constant variance in error terms, while autocorrelation refers to correlations between successive disturbances. Specification errors, such as omitting relevant variables, lead to biased estimates. Understanding these problems is essential for diagnosing and correcting potential flaws in econometric models and statistical findings.

37. (C) Both a necessary and a sufficient condition.

In the context of identifying structural equations within a simultaneous system, the rank condition is a comprehensive criterion. Unlike the order condition, which is only necessary, the rank condition provides both a necessary and a sufficient requirement for identification. It ensures that the information available in the model is mathematically adequate to derive unique estimates for all parameters, making it a more rigorous and definitive test for model identifiability.

38. (B) Two-Stage Least Squares (2SLS)

Two-stage least squares is the preferred estimation method for over-identified equations in a simultaneous system. It addresses simultaneity bias by first using instrumental variables to create predicted values of endogenous regressors that are uncorrelated with the error term. In the second stage, these predicted values are used in a standard regression. This approach ensures consistent parameter estimates when multiple instruments are available, providing a robust solution for complex models.

39. (D) Cumulative standard normal distribution function.

The probit model is a type of regression used for binary dependent variables, assuming that the probability of an outcome is determined by a latent variable. It maps the linear combination of predictors to a probability using the cumulative standard normal distribution function. This ensures that the estimated probabilities always stay within the logical range of zero to one, providing a theoretically sound framework for analyzing individual choices and behaviors.

40. (A) Unforeseen and unpredictable events like strikes, floods, or wars.

Random or irregular variations in a time series are residual movements that remain after accounting for trend, seasonal, and cyclical components. These fluctuations are caused by unpredictable and non-repeating events, such as natural disasters, labor strikes, or sudden political shifts. Because these factors are erratic and do not follow a discernible pattern, they represent the noise in the data and are difficult to anticipate or model for future forecasting.

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41. (C) The variance

The second moment about the mean is a fundamental statistical property that quantifies the spread of a probability distribution. It calculates the average of the squared deviations from the mean, which is formally defined as the variance. This measure provides essential information about the dispersion of data points, indicating how far individual values typically deviate from the central average. It serves as the basis for calculating the standard deviation.

42. (A) Marshall-Edgeworth Index - Uses current year prices as weights

The Marshall-Edgeworth index is a weighted aggregate price index that uses the average of base and current year quantities as weights, rather than prices. In contrast, the Laspeyres index utilizes base year quantities, while the Paasche index uses current year quantities as weights. The Fisher index is the geometric mean of the Laspeyres and Paasche indices, often referred to as the ideal index due to its superior mathematical properties and tests.

43. (D) It is the probability distribution of a sample statistic.

A sampling distribution is a theoretical probability distribution of all possible values of a sample statistic, such as the mean or proportion, derived from all possible samples of a specific size. It describes the variability of the statistic from sample to sample. Understanding this distribution is crucial for statistical inference, as it provides the basis for calculating standard errors, conducting hypothesis tests, and constructing confidence intervals for population parameters.

44. (B) Quota Sampling

Probability sampling involves methods where every unit in the population has a known, non-zero chance of being selected, such as simple random, stratified, and cluster sampling. These methods allow for objective statistical inference. In contrast, quota sampling is a non-probability method where researchers select participants based on specific characteristics to meet a target. Because the selection is non-random and depends on the researcher's choice, it cannot be used for making formal generalizations.

45. (C) 1 - β (where β is the probability of a Type II error)

The power of a statistical test represents the probability of correctly rejecting a null hypothesis when it is actually false. It is mathematically defined as one minus beta, where beta is the probability of committing a Type II error. A high power indicates that the test is sensitive enough to detect an effect or relationship if one truly exists in the population, which is a critical goal in rigorous research.

46. (B) III and IV only

Multicollinearity refers to a high degree of correlation between two or more independent variables in a regression model. While it does not bias the ordinary least squares estimators, it significantly increases their standard errors. This leads to reduced precision in the coefficient estimates and often results in low t-statistics, making individual predictors appear statistically insignificant even when the overall model might have a high coefficient of determination and be useful.

47. (A) Check if a unique estimate of the structural parameters can be obtained from the estimated reduced-form parameters.

The primary goal of rank and order conditions is to ensure that a structural econometric model is identified. Identification is a logical requirement that must be satisfied before estimation can take place. It ensures that the data provides enough information to uniquely determine the numerical values of the structural parameters. Without identification, researchers cannot distinguish between different theoretical relationships, leading to ambiguous results that cannot be used for policy analysis or prediction.

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48. (B) An endogenous variable

In a simultaneous equation model, an endogenous variable is one whose value is determined within the system of equations. These variables are the primary focus of the model, as they represent the outcomes of interest being analyzed. Because they are influenced by other variables in the system and by stochastic shocks, endogenous variables are typically correlated with the error terms, which necessitates the use of specialized estimation techniques like two-stage least squares.

is not ordered in a biased way, it qualifies as probability sampling. This method is often more convenient than simple random sampling while still allowing for statistical generalization.

65. (B) Testing for goodness of fit or independence between categorical variables.

The chi-square test is a non-parametric statistical procedure widely used to analyze categorical data. It can determine if an observed frequency distribution matches a theoretical expected distribution, known as a goodness-of-fit test. Additionally, it is used to test for independence between two categorical variables in a contingency table. These tests help researchers understand if there is a significant association between qualitative factors, such as gender and preference, in a given sample population.

66. (B) P-3, Q-1, R-2, S-4

Econometrics utilizes various tests to diagnose model issues. The Durbin-Watson test detects first-order autocorrelation, while the Breusch-Pagan test identifies heteroscedasticity. The Chow test evaluates whether a structural break has occurred in the parameters over time or across groups. The Augmented Dickey-Fuller test is used to check for a unit root, determining if a time series is non-stationary. These diagnostic tools are essential for ensuring the validity of regression results and statistical inferences.

67. (C) The number of endogenous variables in the equation.

The order condition for identification uses a specific mathematical inequality to determine if a structural equation can be estimated. In this formula, the variable 'm' represents the number of endogenous variables present in that specific equation. For an equation to be exactly identified, the number of excluded exogenous variables must equal this count minus one. This ensures there is sufficient information from the excluded variables to uniquely solve for the coefficients of the included endogenous regressors.

68. (D) Correlation between an explanatory variable and the error term.

Two-stage least squares is a specialized estimation method designed to solve the problem of endogeneity, where an explanatory variable is correlated with the error term. This often occurs in simultaneous equation models or when variables are omitted. By using instrumental variables in the first stage to create a proxy for the endogenous regressor, the method purges the correlation with the disturbance. This results in consistent parameter estimates that are more reliable than those from OLS.

69. (C) Log of the odds of the event occurring for a one-unit change in the predictor.

In a logit model, the relationship between independent variables and the binary outcome is modeled using the logistic function. The estimated coefficients represent the change in the log-odds of the dependent variable for a one-unit increase in the predictor. Unlike standard regression, these coefficients do not directly represent changes in probability, which is non-linear. Instead, they provide a linear estimation of the latent preference or log-likelihood of the specific event occurring in the population.

70. (B) Induce stationarity in a non-stationary series.

Differencing is a common transformation in time series analysis where each observation is subtracted from the one preceding it. This process is primarily used to remove non-stationarity, such as a stochastic trend, from the data. By stabilizing the mean of the series, differencing makes the data suitable for modeling with techniques like ARIMA. A series that becomes stationary after being differenced once is said to be integrated of order one.

71. (D) 0.0

Mutually exclusive events are defined as outcomes that cannot occur simultaneously in a single trial. For instance, in a coin toss, the events of getting heads and tails are mutually exclusive. Because it is impossible for both to happen at the same time, the joint probability of their intersection is exactly zero. This fundamental concept in probability theory helps in calculating the probability of either event occurring by simply adding their individual probabilities.

72. (A) It has fatter tails and a higher peak than the normal distribution.

Kurtosis measures the peakedness and tail thickness of a probability distribution relative

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A recursive system is a specific type of simultaneous equation model where variables are determined in a sequential, one-way process without any feedback loops. This structure ensures that the explanatory endogenous variables in any given equation are independent of the error term in that equation. As a result, researchers can obtain consistent and unbiased parameter estimates by applying ordinary least squares to each equation one after another, significantly simplifying the complex estimation process.

58. (A) The predicted probabilities can be outside the 0-1 range.

The linear probability model uses standard regression to analyze binary outcomes, but it has significant flaws. Most notably, it can generate predicted probabilities that are negative or greater than one, which is logically impossible. Logit and probit models solve this by using non-linear cumulative distribution functions, ensuring that all predictions remain strictly between zero and one. This makes them far more appropriate for modeling individual choices and other discrete, binary economic events.

59. (D) Identifying the presence of trend and seasonality in a time series.

A correlogram, or autocorrelation function plot, is a visual tool that displays the correlation between a time series and its own lagged values. It is essential for identifying patterns within the data, such as long-term trends or repeating seasonal cycles. By observing how the correlations decay or repeat at specific intervals, researchers can determine the appropriate model structure, such as an AR or MA process, and judge whether the series is stationary.

60. (A) III, II, I, IV

Developing an econometric model follows a structured scientific process. It begins with the formulation of a theoretical hypothesis based on economic principles. This theory is then translated into a mathematical model specifying the relationships between variables. Next, researchers collect data and perform the estimation of the model parameters. Finally, hypothesis testing is conducted to evaluate the validity of the initial theory and the statistical significance of the results obtained during the estimation.

61. (C) Skewness

Moments are statistical measures used to describe the shape and characteristics of a probability distribution. The third moment about the mean, when standardized, provides a measure of skewness, which indicates the degree of asymmetry. A positive value suggests a tail extending to the right, while a negative value indicates a tail to the left. A zero value implies a symmetric distribution, such as the normal distribution, where the two sides are mirror images.

62. (D) Fisher's Ideal Index

Fisher's ideal index is a composite measure of price changes calculated as the geometric mean of the Laspeyres and Paasche indices. It is considered ideal because it satisfies several key mathematical criteria, including the time reversal test and the factor reversal test. By incorporating both base and current year quantities, it balances the potential biases inherent in the other formulas, providing a more accurate and robust representation of price movements in an economy.

63. (A) Both A and R are true and R is the correct explanation of A.

Heteroscedasticity occurs when the variance of the error term is not constant across observations. Under these conditions, ordinary least squares estimators remain linear and unbiased, but they lose the property of being the best linear unbiased estimators. This is because they no longer possess the minimum variance, which makes them inefficient. Consequently, the standard errors are incorrectly estimated, leading to unreliable t-tests and confidence intervals, although the estimates themselves are centered correctly.

64. (B) Probability sampling.

Systematic sampling is a probability-based technique where researchers select members from a larger population according to a random starting point and a fixed, periodic interval. Because every element has a known and equal chance of being selected, provided the starting point is chosen randomly and the list

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49. (B) Censored or limited in its range (e.g., non-negative).

The tobit model is an econometric technique used when the dependent variable is censored, meaning it is observed only within a certain range. For example, many economic variables like charitable donations or household spending on luxury goods are non-negative, with a large cluster of observations at exactly zero. The tobit model accounts for this accumulation at the limit, providing more accurate parameter estimates than standard linear regression by considering the underlying latent variable.

50. (A) Test for stationarity or the presence of a unit root.

The Dickey-Fuller test is a statistical procedure designed to detect the presence of a unit root in time series data. A unit root indicates that the series is non-stationary and follows a stochastic trend. By testing the null hypothesis of non-stationarity against the alternative of stationarity, this test helps researchers determine whether the data requires transformation, such as differencing, before it can be used in regression models or forecasting.

51. (C) 95%

In a standard normal distribution, which is bell-shaped and symmetric with a mean of zero and a standard deviation of one, the area under the curve represents probabilities. Approximately ninety-five percent of the total observations fall within one point nine six standard deviations of the mean. This specific range is widely used in statistics to construct ninety-five percent confidence intervals and to determine the critical values for hypothesis tests at a five percent significance.

52. (D) A strong negative linear relationship.

The correlation coefficient quantifies the degree of linear association between two variables. A value of negative zero point nine indicates a very high degree of negative correlation, meaning that as one variable increases, the other tends to decrease in a consistent, linear fashion. Because the absolute value is close to one, the relationship is considered strong, providing a high level of predictability between the two variables within the context of a linear model.

53. (A) Both Statement I and Statement II are true

The standard error of the mean is the standard deviation of its sampling distribution, quantifying the precision of the sample mean as an estimate of the population mean. It is calculated by dividing the population standard deviation by the square root of the sample size. Consequently, as the number of observations increases, the standard error decreases, leading to a more stable and accurate estimate of the true population parameter in statistical inference.

54. (B) The new method has no effect on scores.

In hypothesis testing, the null hypothesis represents a statement of no effect, no difference, or the status quo. It is the baseline assumption that the researcher seeks to challenge with empirical evidence. When testing a new teaching method, the null hypothesis would state that the scores are unchanged compared to the old method. The researcher then uses statistical tests to determine if there is enough evidence to reject this assumption.

55. (D) Biased and inconsistent.

Omitting a relevant explanatory variable that is correlated with the included regressors leads to omitted variable bias. This error causes the ordinary least squares estimators to be biased, meaning their expected values do not equal the true parameters. Furthermore, the estimators are inconsistent, meaning they do not converge to the true values even as the sample size increases. This fundamental specification error invalidates the statistical results and leads to incorrect economic conclusions and predictions.

56. (B) I, II and III only

Indirect least squares is a method for estimating structural parameters in a simultaneous system by first applying ordinary least squares to the reduced-form equations. However, this technique is only applicable when an equation is exactly identified, as it relies on a one-to-one mapping between structural and reduced-form parameters. In over-identified cases, it fails to provide unique estimates. While conceptually important, it is often bypassed in favor of more versatile methods like two-stage least squares.

57. (C) The causal flow is unidirectional, and OLS can be applied to each equation sequentially.

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to a normal distribution. A leptokurtic distribution, which has positive excess kurtosis, is characterized by a sharper, higher peak and fatter tails. This means that more of the variance is due to infrequent, extreme outliers rather than frequent, modest deviations. Such distributions are common in financial data, where extreme price changes occur more often than predicted by a normal model.

73. (C) If 'r' is 1, then the two regression lines are perpendicular to each other.

The correlation coefficient and regression coefficients are closely related but serve different purposes. While they always share the same sign, the correlation is symmetric, whereas the regression coefficient depends on which variable is considered independent. If the correlation is perfect, represented by a value of one, the two regression lines coincide rather than being perpendicular. Furthermore, correlation is independent of scale changes, whereas regression coefficients change if the units of measurement for the variables are altered.

74. (A) Cluster sampling

Cluster sampling is a probability sampling method where the entire population is divided into naturally occurring groups, known as clusters. Instead of selecting individual units, the researcher selects a random sample of these groups. All individuals within the chosen clusters are then included in the sample. This technique is often more cost-effective and practical than simple random sampling, especially when the population is geographically dispersed and a complete list of individuals is unavailable.

75. (D) Overall significance of the regression model.

The F-test in multiple regression is a statistical procedure used to evaluate the null hypothesis that all slope coefficients in the model are simultaneously equal to zero. This test determines whether the set of independent variables, as a whole, has a statistically significant relationship with the dependent variable. A significant F-statistic indicates that the model provides a better fit for the data than a model containing only an intercept, justifying the inclusion of the predictors.

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76. (A) I and II only

The coefficient of determination measures the proportion of variance in the dependent variable explained by the model, always ranging between zero and one. Adding any variable to a model will never decrease this value. To address this, adjusted R-squared is used, which penalizes the addition of non-explanatory variables. Consequently, adjusted R-squared can actually decrease if a new variable contributes very little to the model's predictive power, providing a better indicator of model quality.

77. (C) Correlated with the endogenous explanatory variable and uncorrelated with the error term.

An effective instrumental variable must satisfy two primary conditions to provide consistent estimates in the presence of endogeneity. First, it must be relevant, meaning it has a strong correlation with the endogenous explanatory variable it is meant to proxy. Second, it must be exogenous, meaning it is completely uncorrelated with the error term of the structural equation. These properties allow the instrument to isolate the exogenous variation in the regressor, solving the bias problem.

78. (D) Recursive models assume unidirectional influence, while non-recursive models allow for feedback.

The fundamental distinction between recursive and non-recursive simultaneous equation models lies in the nature of causality. Recursive models are structured so that the causal flow moves in only one direction, preventing feedback loops between variables. This simplicity allows them to be estimated using ordinary least squares. Non-recursive models, however, allow for bidirectional relationships where variables can influence each other simultaneously. These feedback loops create endogeneity, necessitating more complex estimation techniques like two-stage or three-stage least squares.

79. (A) Marginal effects

In a probit model, the estimated coefficients represent changes in the latent variable's z-score and are not directly interpretable as changes in probability. To provide a more practical interpretation, researchers calculate marginal effects, which show how the probability of the outcome changes with a one-unit increase in

a predictor. Because the probit model is non-linear, these effects depend on the values of the other variables, often evaluated at the sample means or for specific individuals.

80. (B) Autoregressive (p), Integration (d), and Moving Average (q)

An ARIMA model is a sophisticated time series forecasting method that integrates three distinct components. The autoregressive part uses the relationship between an observation and several lagged observations. The integration component involves differencing the data to achieve stationarity. The moving average part accounts for the relationship between an observation and a residual error from a moving average model applied to lagged observations. Together, these elements capture complex temporal patterns and facilitate accurate future predictions.

81. (B) Sum of the products of each possible value and its probability.

The expected value of a discrete random variable is a fundamental concept in probability that represents the long-term average outcome of an experiment. It is calculated by taking each possible value the variable can assume, multiplying it by its respective probability of occurrence, and summing these products together. This weighted average provides a central measure of the distribution, reflecting where the data is likely to be concentrated over a large number of repeated trials.

82. (A) The difference between the largest and smallest observations.

The range is the simplest measure of dispersion in statistics, calculated by subtracting the minimum value in a dataset from the maximum value. While it provides a quick sense of the total spread of the data, it is highly sensitive to extreme outliers because it ignores all observations except the two most extreme ones. Consequently, the range may not accurately reflect the typical variability of most data points within a sample or population.

83. (D) Statement I is false but Statement II is true

Sampling errors are an inherent part of statistical analysis that occur because data is collected from a subset rather than the entire population. Non-sampling errors arise from human mistakes, such as poor survey design or data entry errors, and unfortunately, these often increase as the sample size grows because larger operations become harder to manage perfectly. Understanding both error types is essential for evaluating the overall reliability and validity of any research findings or statistical estimates.

84. (D) Split, with 2.5% in each tail of the distribution.

In a two-tailed hypothesis test, the researcher is looking for any significant difference from the null value, whether higher or lower. To maintain a specific significance level, such as five percent, the rejection region must be divided equally between the two extremes of the distribution. This results in two point five percent of the probability being placed in each tail. If the test statistic falls in either of these outer regions, the null hypothesis is rejected.

85. (C) Stochastic error or disturbance term.

In a linear regression model, the stochastic error term represents all factors that influence the dependent variable but are not explicitly included as independent variables. This term accounts for measurement errors, inherent randomness in human behavior, and the influence of omitted variables. By including this component, the model acknowledges that the relationship between variables is not perfectly deterministic. The assumptions made about the distribution of this error term are critical for valid statistical inference.

86. (A) Both A and R are true and R is the correct explanation of A.

Multicollinearity is essentially a data-related issue where independent variables show high correlation within a specific sample. While variables might be independent in the theoretical population, the particular observations collected for a study may accidentally exhibit a linear relationship. This phenomenon makes it difficult for the regression model to isolate the individual contribution of each regressor. Therefore, the characteristics of the sample itself are the direct cause of the high standard errors associated with multicollinearity problems.

87. (D) To express each endogenous variable solely as a function of exogenous variables and error terms.

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Reduced-form equations are derived from structural equations to simplify the estimation process in simultaneous models. Their primary purpose is to express each endogenous variable as a direct function of all the predetermined variables and error terms in the entire system. By removing the current endogenous variables from the right-hand side of the equations, reduced-form models avoid simultaneity bias. This allows researchers to estimate the parameters using ordinary least squares and provides a basis for forecasting.

88. (A) We cannot obtain a unique estimate for its parameters.

An equation is considered under-identified when the available data and model restrictions do not provide enough information to distinguish its structural parameters from those of other equations. This occurs when the order condition is not satisfied, meaning there are not enough excluded predetermined variables. In this situation, it is mathematically impossible to derive unique numerical estimates for the coefficients, and any attempt at estimation will result in ambiguous or non-unique solutions for the model.

89. (C) Determined by the same underlying variable and process.

The tobit model is built on the fundamental assumption that the same underlying stochastic process governs both the initial decision to participate and the subsequent decision regarding the intensity or amount. For instance, in a model of consumer spending, the same factors that determine whether someone buys a product also determine how much they spend. This linkage is a key feature of the model and distinguishes it from two-part models where these decisions are treated independently.

90. (A) A linear combination of the two series is stationary, I(0).

Cointegration describes a long-term equilibrium relationship between two or more non-stationary time series. While individual series may wander over time, their movements are linked such that a specific linear combination of them remains stationary. This means the series do not drift too far apart in the long run. Identifying cointegration is crucial in econometrics because it allows researchers to model meaningful economic relationships between variables without the risk of obtaining spurious regression results.

91. (D) The total area under the curve is greater than 1.

The normal distribution is a continuous probability distribution characterized by its bell-shaped, symmetric curve where the mean, median, and mode are all equal. It is defined by two parameters, the mean and the standard deviation. A fundamental property of all probability density functions, including the normal curve, is that the total area under the curve must be exactly equal to one. This ensures that the sum of probabilities for all possible outcomes equals one hundred percent.

92. (C) Fisher's Ideal Index

Fisher's ideal index is a comprehensive measure used to track changes in prices or quantities over time. It is calculated by taking the geometric mean of the Laspeyres index, which uses base-period weights, and the Paasche index, which uses current-period weights. This mathematical structure allows the Fisher index to satisfy the time reversal and factor reversal tests, providing a theoretically balanced approach that avoids the typical overestimation or underestimation biases associated with its component indices.

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93. (A) the probability distribution of the statistic for all possible samples of a given size.

A sampling distribution is a theoretical probability distribution that describes the behavior of a sample statistic, such as the mean, over all possible random samples of a specific size that could be drawn from a population. It helps researchers understand how much a statistic is expected to vary from one sample to another. This concept is foundational for calculating standard errors, setting confidence intervals, and determining the significance of results in inferential statistics.

94. (D) Statistical inference can prove a hypothesis with 100% certainty.

Statistical inference is the process of using sample data to draw conclusions about a larger population. It involves point estimation, interval estimation, and hypothesis testing. However,

109. (A) A latent variable that is only partially observed.

The tobit model is based on the concept of a latent variable, which represents an underlying preference or potential outcome that is only observed when it exceeds a certain threshold. For many economic choices, such as spending, the variable is censored because negative values are not possible or recorded. The observed dependent variable is therefore a mixture of discrete zeros and continuous positive values. This unique structure allows the tobit model to provide more accurate estimates than standard regression.

110. (B) II, I, III, IV

The Box-Jenkins methodology for time series forecasting follows a systematic four-step process. It begins with model identification, where tools like the autocorrelation function are used to determine the order of the ARIMA process. Next is parameter estimation, where the specific coefficients are calculated from the data. This is followed by diagnostic checking to ensure the residuals are random noise. Finally, the confirmed model is used for forecasting future values of the time series variable.

111. (C) Consistency

Consistency is a fundamental large-sample property of a point estimator. An estimator is considered consistent if it converges in probability to the true population parameter as the sample size increases toward infinity. This means that with enough data, the estimates become increasingly accurate and the probability of a large error approaches zero. While an estimator might be biased in small samples, consistency ensures that it will eventually yield the correct value as more information is gathered.

112. (A) $P_{01} \times P_{10} = 1$

The time reversal test is a mathematical criterion used to evaluate the consistency of index number formulas. It requires that the index for the current year based on the base year should be the reciprocal of the index for the base year based on the current year. When these two indices are multiplied, the result must be exactly one. Satisfying this test ensures that the index remains logically consistent regardless of which period is chosen as the point of reference.

113. (B) Stratified sampling

Stratified sampling is a probability sampling method where the entire population is first divided into mutually exclusive and exhaustive subgroups, known as strata, based on a specific characteristic like gender. A random sample is then independently drawn from each of these subgroups. This technique ensures that all segments of the population are adequately represented in the final sample, which often leads to more precise estimates and a lower standard error than simple random sampling.

114. (A) Reject the null hypothesis.

In hypothesis testing, the p-value represents the probability of obtaining the observed results if the null hypothesis were true. To make a decision, this value is compared to the chosen significance level. If the p-value is less than the threshold, the evidence is considered strong enough to reject the null hypothesis. Since a p-value of zero point zero four is less than zero point zero five, the researcher rejects the null hypothesis at the five percent level.

115. (C) Multicollinearity

The variance inflation factor is a diagnostic tool used to measure how much the variance of an estimated regression coefficient is increased due to collinearity with other independent variables. A high VIF value, typically above five or ten, indicates that the specific regressor is highly correlated with other predictors in the model. This multicollinearity makes the coefficient estimates unstable and reduces the statistical power of the individual t-tests, although the overall model fit may still appear strong.

116. (B) I, II, III, IV only

Econometric modeling involves structural equations derived from theory and reduced-form equations that express outcomes in terms of exogenous factors. Because endogenous variables are determined within the system and often correlated with disturbances, ordinary least squares is usually biased. While exogenous variables are determined externally, recursive models are a specific subset where causality is unidirectional. Understanding these distinctions is essential for selecting appropriate estimation techniques and correctly interpreting

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insight into the likelihood of extreme values occurring within the dataset being analyzed by researchers.

102. (B) 0.64
The coefficient of determination, denoted as R-squared, is calculated by squaring the Pearson correlation coefficient. It represents the proportion of the total variation in the dependent variable that is explained by the independent variable in a linear regression model. For a correlation of zero point eight, squaring this value yields zero point six four. This means that sixty-four percent of the variation is accounted for by the model, while the remaining thirty-six percent is due to other factors.

103. (A) Standard error
The standard error is a critical statistical measure representing the standard deviation of the sampling distribution of a statistic, such as the mean. It quantifies the amount of variation or error expected in a sample statistic relative to the true population parameter. A smaller standard error indicates that the sample estimate is more precise and closer to the population value. This measure is fundamental for conducting hypothesis tests and constructing confidence intervals in inferential statistical analysis.

104. (A) Both Statement I and Statement II are true
In the framework of hypothesis testing, researchers evaluate two competing statements. The null hypothesis represents the status quo or the assumption of no effect, and it is what the researcher typically aims to challenge or disprove. The alternative hypothesis, on the other hand, represents the specific effect, difference, or relationship that the researcher is trying to establish with empirical evidence. Together, these hypotheses provide a formal structure for making scientific inferences based on observed sample data.

105. (A) P-3, Q-4, R-1, S-2
Fundamental theorems and concepts underpin statistical and econometric analysis. The Gauss-Markov theorem establishes the efficiency of OLS estimators, while the central limit theorem describes the normal behavior of sample means in large samples. The law of large numbers explains how sample averages converge to population values as sample sizes grow. The identification problem addresses whether parameters in simultaneous systems can be uniquely estimated. These principles are essential for ensuring the validity and reliability of statistical results and conclusions.

106. (B) Unbiased but inefficient.
Autocorrelation occurs when the error terms for different observations are correlated, which frequently happens in time series data. In this situation, the ordinary least squares estimators remain unbiased and consistent, meaning they are still centered on the true values. However, they are no longer the best linear unbiased estimators because they are inefficient, failing to have the minimum variance. This inefficiency leads to biased standard errors, making traditional t-tests and confidence intervals unreliable for statistical inference.

107. (C) The Durbin-Watson test.
Multicollinearity is detected through several diagnostic tools, including high pairwise correlations between predictors, large variance inflation factors, or observing a high model R-squared combined with very few significant t-statistics. These indicators suggest that independent variables are highly related, making it hard to isolate individual effects. In contrast, the Durbin-Watson test is specifically designed to detect first-order autocorrelation in the residuals of a regression model and is not used to identify relationships among explanatory variables.

108. (A) 2SLS can be applied to over-identified equations, while ILS cannot.
Indirect least squares is a simple method for estimating structural parameters but is strictly limited to equations that are exactly identified. When an equation is over-identified, meaning there are more instruments available than required, ILS fails to provide a unique solution. Two-stage least squares overcomes this limitation by effectively utilizing all available instrumental variables to create the best possible proxy for endogenous regressors. This versatility makes 2SLS the standard choice for estimating complex simultaneous equation models.

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arises because only a portion of the population is observed. In statistical theory, the standard error of the mean is inversely proportional to the square root of the sample size. Therefore, as more observations are included in the sample, the estimates become more stable and precise. A larger sample size reduces the variability of the sample mean, leading to smaller sampling errors.

125. (B) Independent samples t-test

The independent samples t-test is used to compare the means of two distinct, unrelated groups. It is specifically appropriate when the data are approximately normally distributed, the population standard deviations are unknown, and the sample sizes are small. This test evaluates whether the observed difference between the two sample means is statistically significant or could have occurred by chance. It relies on the assumption that the variances of the two populations are relatively similar or equal.

126. (D) I, II, III and IV

Heteroscedasticity involves a non-constant variance of the error terms across different observations. This violation of classical assumptions does not bias the OLS estimators, meaning they remain consistent and centered on the true values. However, they are no longer efficient, and the estimated standard errors become biased. This invalidates standard hypothesis tests and confidence intervals, making results unreliable. Using robust standard errors or weighted least squares is often necessary to correct these issues and ensure valid statistical inferences.

127. (A) necessary, sufficient

In the identification of simultaneous equation models, two conditions are typically evaluated. The order condition is relatively easy to check but is only a necessary requirement, meaning an equation that fails it is definitely not identified, but passing it does not guarantee identification. The rank condition is a more complex mathematical criterion that provides a sufficient requirement. If an equation satisfies the rank condition, it is guaranteed to be identified, ensuring that unique estimates of its parameters can be obtained.

128. (B) Each endogenous explanatory variable is regressed on all exogenous variables in the system.

The first stage of the two-stage least squares method aims to address endogeneity. In this step, each endogenous explanatory variable is regressed against all the exogenous variables available in the entire model using ordinary least squares. The purpose is to isolate the component of the endogenous variable that is related only to the exogenous factors. The predicted values from this first stage are then used as proxies in the second stage, effectively removing any correlation with the error term.

129. (A) Has a dependent variable with more than two nominal (unordered) categories.

While a simple logit model is used when there are only two possible outcomes, the multinomial logit model extends this framework to cases with three or more discrete choices. These categories must be nominal, meaning they have no inherent natural order, such as choosing between different modes of transport like car, bus, or train. The model estimates the probability of each outcome relative to a base category, allowing researchers to analyze complex decision-making processes among multiple alternatives.

130. (B) Integrated of order one, I(1)

A time series is described as being integrated of order one if it is non-stationary in its original form but becomes stationary after being differenced exactly once. This is a common property for many economic variables that exhibit a stochastic trend. By transforming the data through differencing, researchers can stabilize the mean and variance, making the series suitable for further analysis and forecasting using traditional time series models like ARIMA, which require stationarity as a precondition.

131. (B) Zero

Variance is a statistical measure that quantifies the degree of dispersion or spread of a set of values around their mean. It is calculated by taking the average of the squared deviations from the average value. A constant, by definition, never changes and always takes the same value across all observations. Because there is absolutely no deviation or spread for a constant value, its

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the relationships within simultaneous systems of equations.

117. (B) Its parameters can be uniquely estimated from the data.

Identification is a logical property of a model that must be satisfied before estimation can proceed. An equation is considered identifiable if the information provided by the data and the model's restrictions is sufficient to derive unique numerical values for the structural parameters. Without identification, different theoretical relationships could produce the same observed results, making it impossible to isolate the specific effects of variables. Achieving identification is a necessary step for ensuring that econometric results are meaningful and interpretable.

118. (A) Z-score for a one-unit change in the explanatory variable.

In a probit model, the relationship between the independent variables and the probability of a binary outcome is based on the cumulative standard normal distribution. The estimated coefficients indicate how a one-unit increase in a predictor changes the latent variable, which is measured as a z-score. Unlike standard regression, these coefficients do not directly show the change in probability, which varies depending on the initial levels of all predictors. They provide a linear measure of the underlying index.

119. (B) Declines exponentially or with a damped sine wave pattern.

The auto correlation function is a critical tool for analyzing stationary time series. For such series, the correlation between an observation and its lagged values must decay as the time lag increases. This decay typically follows an exponential pattern or a damped sine wave, indicating that the influence of past values diminishes over time. If the ACF fails to die out quickly, it is a strong indication that the time series is non-stationary and may require differencing.

120. (A) Both A and R are true and R is the correct explanation of A.

The error term in a linear regression model serves as a catch-all for all the factors that affect the dependent variable but are not explicitly included in the model. This includes minor variables, measurement errors, and inherent randomness. For the model to provide unbiased results, researchers assume these omitted factors are collectively insignificant and unrelated to the included independent variables. If this assumption holds, the error term behaves as random noise, allowing for the accurate estimation of structural parameters.

121. (C) Equal to zero

The arithmetic mean is the mathematical center of a dataset. By definition, it is the value such that the total sum of the positive differences from it is exactly balanced by the total sum of the negative differences. Consequently, when the deviation of every individual data point from the mean is calculated and then summed together, the final result is always exactly zero. This fundamental property illustrates the central balancing role of the mean in descriptive statistics.

122. (C) Seasonal variation

Seasonal variation refers to regular and predictable patterns in a time series that repeat at fixed intervals, typically within a single year. These fluctuations are often caused by weather conditions, social customs, or administrative cycles, such as increased retail sales during holidays or higher electricity consumption in summer. By identifying and removing these seasonal effects through various statistical techniques, researchers can better analyze the underlying long-term trend and cyclical components of the data being studied.

123. (B) 1

Probability is a mathematical measure of likelihood that ranges from zero to one. A probability of zero indicates that an event is impossible and will never occur. At the other extreme, a probability of exactly one signifies that an event is certain to happen. This foundational rule ensures that the sum of the probabilities of all possible outcomes in any given sample space always equals one hundred percent, providing a closed system for statistical analysis.

124. (A) A smaller sampling error.

Sampling error is the difference between a sample statistic and the true population parameter that

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154. (C) Its values can be negative.

The F-distribution is a continuous probability distribution that arises from the ratio of two independent chi-square variables, each divided by its respective degrees of freedom. Because it is formed from the ratio of squared values, which are always non-negative, the F-distribution itself can only take zero or positive values. It is typically skewed to the right and is characterized by its shape being determined by two separate degrees of freedom, which reflect the sample sizes of the groups.

155. (C) Heteroscedasticity

The Goldfeld-Quandt test is a statistical procedure used to detect the presence of heteroscedasticity in a regression model. It involves dividing the sample into two groups based on the value of an independent variable and comparing the variances of the residuals from separate regressions. If the ratio of the two variances is significantly different from one, it suggests that the error term does not have a constant variance. This diagnostic step is crucial for ensuring the efficiency of OLS estimators.

156. (B) II, III and IV only

Identification is a crucial logical step in simultaneous equation modeling that determines whether structural parameters can be uniquely estimated. The problem arises when multiple structural forms lead to identical reduced-form equations. The order condition is a necessary check, while the rank condition provides a more rigorous sufficient requirement for identification. An over-identified equation actually has identifiable parameters, as it provides multiple ways to estimate them. Understanding these conditions is essential for correctly specifying and estimating complex economic systems.

157. (B) Predetermined (exogenous and lagged endogenous) variables only.

Reduced-form equations are derived by solving a system of simultaneous equations to express each endogenous variable as a direct function of the variables that are determined outside the current system. These predetermined variables include current exogenous variables and any lagged values of endogenous or exogenous variables. By removing current endogenous variables from the right side of the equations, reduced-form models eliminate the problem of simultaneity bias, allowing for consistent estimation of the coefficients using ordinary least squares.

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158. (C) Maximum Likelihood

In discrete choice models like logit and probit, the relationship between independent variables and the categorical outcome is non-linear. Consequently, the method of ordinary least squares is not suitable for estimation. Instead, researchers use the principle of maximum likelihood, which identifies parameter values that make the observed choices most probable. This estimation technique provides estimators that possess desirable large-sample properties, including consistency and asymptotic efficiency, making it the standard choice for analyzing decisions and other discrete economic events.

159. (B) Non-stationary time series.

A random walk is a classic model of a non-stationary time series where the current value is equal to the previous value plus a random, unpredictable shock. In this process, the variance of the series increases linearly with time, and shocks have a permanent effect on all future observations. Because its statistical properties, such as mean and variance, are not constant over time, the random walk lacks the stationarity required for many traditional time series analysis techniques.

160. (C) Use a transformation like the Cochrane-Orcutt procedure.

When a regression model suffers from first-order autocorrelation, the error terms are serially dependent, which invalidates standard inference. The Cochrane-Orcutt procedure is a common remedy that involves transforming the original variables to account for this correlation. By estimating the autocorrelation coefficient from the residuals and then using it to transform the data, the procedure effectively purges the serial dependence. This results in more efficient parameter estimates and reliable standard errors for conducting hypothesis tests and constructing confidence intervals.

161. (A) np

variance is always exactly zero, reflecting perfect stability with no variability at all.

132. (B) Two variables ranked in order.
Spearman's rank correlation coefficient is a non-parametric measure used to evaluate the strength and direction of the monotonic relationship between two variables. Instead of using the raw data values, it uses the ranks of the data points. This makes it particularly useful for analyzing ordinal data or continuous variables that do not follow a normal distribution. It is less sensitive to outliers than the Pearson correlation and can detect any monotonic association, whether linear or non-linear.

133. (A) Both Statement I and Statement II are true
A census is a comprehensive study that collects data from every individual member of a population, providing high accuracy but requiring significant time and financial resources. In contrast, a sample survey examines only a subset of the population to make inferences about the whole. Sampling is often preferred in research because it is much more cost-effective and allows for faster data collection and analysis while still providing reliable and sufficiently precise results for most practical purposes.

134. (B) A Type II error.
The significance level of a test determines the threshold for rejecting the null hypothesis. Reducing this level, for example from five percent to one percent, makes the test more stringent and reduces the chance of incorrectly rejecting a true null hypothesis, which is a Type I error. However, this increased strictness makes it harder to reject a false null hypothesis. Consequently, the risk of a Type II error increases, as the test becomes less sensitive to detecting real effects.

135. (B) First-order autocorrelation
The Durbin-Watson statistic is a diagnostic tool used to detect the presence of first-order autocorrelation in the residuals of a regression analysis. Its value typically ranges from zero to four, where a value of approximately two indicates no autocorrelation. Values significantly below two suggest positive autocorrelation, commonly found in time series data, while values above two suggest negative autocorrelation. Correctly identifying this issue is essential because autocorrelation invalidates the standard errors used for hypothesis testing and inference.

136. (A) P-3, Q-4, R-1, S-2
Different econometric models are used for specific types of dependent variables. The linear probability model uses standard regression for binary outcomes but has several flaws. Logit and probit models improve on this by using logistic and normal distributions, respectively, to ensure probabilities stay within range. The tobit model is specialized for cases where the dependent variable is censored, such as when many observations are at a lower limit of zero. Choosing the correct model is vital for obtaining valid estimates.

137. (B) Describes the behavior of a specific group of economic agents.
In an econometric system, a structural equation is considered behavioral if it models the decision-making process or technical relationship of economic agents, such as consumers or firms. For example, a demand function is a behavioral equation because it describes how buyers react to changes in price. These equations differ from identities, which are true by definition and contain no unknown parameters. Estimating behavioral equations is the primary focus of econometrics as it allows for testing specific economic theories.

138. (C) More than one possible solution for the structural parameters.
An equation is over-identified when the model provides more information than is strictly necessary to solve for its structural parameters. Specifically, this happens when the number of excluded predetermined variables exceeds the number required by the order condition. In this case, different combinations of instruments can lead to different estimates of the same parameter. Two-stage least squares is used in these situations to reconcile the multiple sources of information and provide a single, consistent, and efficient estimate.

139. (A) $\exp(\beta)$
In a logistic regression, the estimated coefficients represent the change in the log-

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odds of the dependent variable for a one-unit change in the predictor. To make these results more interpretable, researchers often calculate the odds ratio by taking the exponent of the coefficient. This value indicates the multiplicative factor by which the odds of the event occurring change. For example, an odds ratio of two means the odds double for each unit increase in the independent variable.

140. (B) Uncorrelated, have a mean of zero, and constant variance.

A white noise process is a fundamental building block in time series analysis representing a sequence of random variables that are completely unpredictable. By definition, these variables have a constant mean, typically zero, and a constant variance over time. Most importantly, they are serially uncorrelated, meaning that the value at any given time provides no information about future or past values. Residuals from a well-specified and correctly identified model should ideally follow a white noise process.

141. (C) Probability distribution

Moments are mathematical values used in statistics and probability theory to provide a complete description of the shape and characteristics of a probability distribution. The first moment is the mean, representing centrality, while the second moment about the mean is the variance, representing dispersion. Higher-order moments describe more complex features like skewness and kurtosis. Together, these values allow researchers to compare different distributions and understand the underlying behavior of the random variables being studied in various models.

142. (B) Current period

The Paasche price index is a method for measuring changes in price levels over time by using the quantities of the current period as weights. This differs from the Laspeyres index, which relies on base-period quantities. Because it reflects current consumption patterns, the Paasche index accounts for changes in consumer preferences and substitution effects. However, it requires new quantity data for every period, making it more difficult to calculate and maintain than indices that use a fixed base-period basket.

143. (D) Convenience Sampling

Non-probability sampling methods involve selecting participants based on non-random criteria, such as ease of access or researcher judgment. Convenience sampling is a common non-probability method where researchers choose subjects who are most readily available. Because these methods do not ensure every individual has a known or equal chance of being selected, they are susceptible to significant selection bias. Consequently, results from convenience samples cannot be used to make formal statistical generalizations about the entire population being studied.

144. (B) A lower peak and fatter tails.

The t-distribution is a probability distribution used extensively in statistics, particularly when dealing with small sample sizes and unknown population variances. While it is symmetric and bell-shaped like the standard normal distribution, it is flatter at the center and has thicker tails. This means it assigns a higher probability to extreme values, reflecting the greater uncertainty inherent in small samples. As the sample size increases, the t-distribution gradually converges to the shape of the standard normal distribution.

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145. (C) It has the minimum variance among the class of linear and unbiased estimators.

The property of being the best linear unbiased estimator is established by the Gauss-Markov theorem for ordinary least squares. This signifies that OLS estimators are linear functions of the data and their expected values equal the true parameters. Most importantly, 'best' means they are efficient, possessing the lowest possible variance among all unbiased estimators that are also linear. This ensures that OLS provides the most precise and accurate estimates within its class under classical model assumptions.

146. (A) II, III, I, IV

The development of econometrics progressed through the work of several key figures. Carl Friedrich Gauss developed the least squares method in the early nineteenth century. Later, Francis Galton pioneered regression and correlation concepts. In the twentieth century, Ragnar Frisch co-founded the Econometric Society and formalized many structural modeling

techniques. Finally, Clive Granger developed modern time series methods, including the concept of cointegration, reflecting the evolving sophistication and mathematical rigor of the field over two centuries.

147. (B) Appears in a structural equation.
Structural parameters are the coefficients found in the structural equations of an econometric model. These parameters represent the direct, theoretically derived relationships between variables, such as the marginal propensity to consume or price elasticity. They are often the primary focus of economic research as they describe the underlying behavior of economic agents. Unlike reduced-form parameters, which combine multiple effects, structural parameters allow researchers to evaluate the specific impact of changing one variable while holding others constant.

148. (C) Determined outside the model and is assumed to be independent of the error terms.
In an econometric model, an exogenous variable is one whose value is determined by factors outside the specific system being studied. Because their values are fixed independently of the model's internal processes, exogenous variables are assumed to be uncorrelated with the stochastic error terms. This independence is a crucial property, as it allows these variables to serve as effective instruments or predictors. They provide the external information necessary to estimate the behavior of the endogenous variables within the model.

149. (C) Standard Normal CDF
Probit and logit models are both popular techniques for analyzing binary choice outcomes, mapping linear predictors to probabilities between zero and one. The fundamental difference between them is the specific cumulative distribution function used. While the logit model employs the logistic distribution, the probit model uses the cumulative standard normal distribution. Both functions are symmetric and S-shaped, but they differ slightly in the thickness of their tails, often leading to very similar results in many practical empirical applications.

150. (A) Both A and R are true and R is the correct explanation of A.
Cointegration occurs when a linear combination of two or more non-stationary time series is itself stationary. While each series individually may exhibit a random walk or stochastic trend, they are tied together by a long-run equilibrium. This implies that they move together over time and do not drift apart indefinitely. Because their combination is mean-reverting, researchers can use cointegration to model meaningful economic relationships while avoiding the problem of spurious regression often associated with non-stationary data.

151. (B) 0.40
Conditional probability measures the likelihood of an event occurring given that another event has already happened. It is calculated by dividing the probability of the intersection of the two events by the probability of the given condition. In this specific case, the joint probability of events A and B is zero point two, and the probability of event B is zero point five. Dividing zero point two by zero point five yields zero point four, which is the final probability.

152. (C) Mode
The mode is the measure of central tendency that identifies the most frequent value in a dataset. It is uniquely suited for qualitative data measured on a nominal scale, where categories have no inherent numerical value or order, such as favorite colors or political affiliations. Unlike the mean or median, which require numerical values or rankings, the mode simply highlights the most common category, providing a meaningful summary for nominal variables that cannot be averaged or ordered.

153. (B) a population parameter
A confidence interval is an estimated range of values calculated from sample data that is likely to include an unknown population parameter, such as the mean or proportion. The width of the interval depends on the chosen confidence level and the variability of the sample. For instance, a ninety-five percent confidence interval indicates that if the sampling procedure were repeated many times, ninety-five percent of the resulting intervals would contain the true, fixed value of the population parameter.

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because inference relies on a subset of the population, it always involves some degree of uncertainty and probability. No statistical test can ever prove a hypothesis with absolute one hundred percent certainty. Instead, results are expressed in terms of confidence levels and probabilities of making specific types of errors.

95. (A) Sum of the squared residuals.

In simple linear regression, the method of ordinary least squares is used to find the line that best represents the relationship between the independent and dependent variables. This best-fit line is mathematically determined by minimizing the sum of the squared vertical differences, known as residuals, between the observed data points and the regression line. By squaring these deviations, the method penalizes larger errors more heavily and ensures that positive and negative differences do not simply cancel each other out.

96. (D) I, II, III, and IV

Model specification is critical for obtaining reliable econometric results. Omitting a relevant variable leads to biased and inconsistent estimators. Conversely, including an irrelevant variable does not cause bias but results in inefficiency due to larger variances. Furthermore, choosing the wrong functional form, such as using a linear model for a non-linear relationship, will also produce biased estimates. Ensuring the model is correctly specified is therefore essential for valid hypothesis testing, accurate estimation, and meaningful economic interpretation.

97. (B) Uncorrelated with the error term.

For an instrumental variable to provide consistent estimates in a model with endogeneity, it must satisfy two conditions. The relevance condition requires it to be correlated with the endogenous explanatory variable. The exogeneity condition, also known as the exclusion restriction, requires the instrument to be completely uncorrelated with the error term of the structural equation. This ensures that the instrument only affects the dependent variable through the endogenous regressor, effectively solving the problem of correlation between regressors and disturbances.

98. (B) A classic supply and demand model where quantity demanded depends on price, and quantity supplied depends on price.

A non-recursive simultaneous equation model is characterized by feedback loops where variables influence each other at the same time. A classic example is the market equilibrium model for supply and demand. In this system, the price influences both the quantity demanded and the quantity supplied, while the interaction of supply and demand simultaneously determines the market price. This bidirectional causality creates endogeneity, which means that ordinary least squares cannot produce consistent or unbiased parameter estimates.

99. (C) Maximum Likelihood Estimation (MLE)

The coefficients in a logit model are estimated using the method of maximum likelihood rather than ordinary least squares. This approach involves finding the parameter values that maximize the probability of observing the given sample data. Because the logit model is non-linear in its parameters, maximum likelihood provides estimators that are consistent, asymptotically efficient, and normally distributed in large samples. This makes it the standard technique for modeling binary and categorical outcomes in modern statistical and economic research.

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100. (B) Non-stationary

A time series is said to have a unit root if its current value depends heavily on its previous value plus a random shock, with no tendency to return to a long-run mean. This condition indicates that the series is non-stationary, as its mean and variance change over time. Shocks to a series with a unit root have a permanent effect on its future values, which is a characteristic of many economic variables like exchange rates or stock prices.

101. (C) Kurtosis

Moments are statistical values used to characterize the shape and features of a probability distribution. While the first two moments describe the mean and variance, and the third describes skewness, the fourth moment about the mean is used to measure kurtosis. Kurtosis indicates the peakedness of the distribution and the thickness of its tails relative to a normal distribution. This provides

The binomial distribution models the number of successes in a fixed number of independent trials, each having the same probability of success. A fundamental property of this distribution is its mean, also known as the expected value, which is calculated as the product of the number of trials and the probability of success in a single trial. This value represents the average number of successes one would expect to observe if the experiment were repeated many times.

162. (B) (Standard Deviation / Mean) * 100
The coefficient of variation is a relative measure of dispersion that expresses the standard deviation as a percentage of the arithmetic mean. Unlike the standard deviation, which is measured in the same units as the original data, the coefficient of variation is unitless. This makes it an exceptionally useful tool for comparing the degree of variability or consistency between two or more datasets that have different units or widely differing means, such as stock prices and volumes.

163. (A) Both Statement I and Statement II are true
Sampling methods are categorized into probability and non-probability techniques. Judgmental sampling is a non-probability method where the researcher selects participants based on their personal expertise or specific criteria, leading to potential bias. In contrast, probability sampling ensures that every member of the population has a known, non-zero chance of selection. This random selection process allows researchers to use mathematical theories to estimate sampling error and make formal, objective generalizations about the larger population being studied.

164. (B) The number of independent pieces of information available to estimate a parameter.
Degrees of freedom represent the number of independent values or pieces of information that can vary in a statistical calculation without violating any constraints. In the context of estimation, it is typically the total number of observations minus the number of parameters being estimated. This concept is vital for determining the specific shape of various probability distributions, such as t, chi-square, and F, and is essential for accurately calculating test statistics and critical values in hypothesis testing.

165. (C) BLUE (Best Linear Unbiased Estimators)
The Gauss-Markov theorem is a fundamental pillar of linear regression analysis. it states that under the classical assumptions of linearity, no multicollinearity, and homoscedastic, uncorrelated error terms, the ordinary least squares estimators are the best linear unbiased estimators. This means they are not only linear and unbiased but also possess the minimum possible variance among all such estimators. Consequently, they are the most efficient tools for estimating the true parameters of a linear regression model.

166. (B) P-3, Q-4, R-1, S-2
Econometric models are built using different types of variables and equations. Endogenous variables are determined within the system, while exogenous variables are determined by external factors. Structural equations represent behavioral or technical relationships derived from economic theory, containing unknown parameters to be estimated. Reduced-form equations simplify the system by expressing each endogenous variable as a function of only predetermined variables. Understanding these components is essential for correctly specifying, identifying, and estimating complex simultaneous systems in economic and social research.

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167. (D) Included in at least one other equation in the system to serve as an instrument.
Identification in a simultaneous equation system requires that there is enough information to distinguish one equation from another. A key part of this process involves excluding certain exogenous variables from a specific equation. For these excluded variables to help identify the equation, they must be included in at least one other equation within the system. This allows them to act as instrumental variables, providing the necessary exogenous variation needed to uniquely estimate the coefficients of the included endogenous regressors.

168. (B) A multinomial logit model
The multinomial logit model is an extension of the standard logit model designed for situations

values are spread out around the central average. A larger variance indicates that data points are likely to be far from the mean, while a smaller variance suggests they are clustered closely together. Variance is non-negative and is the square of the standard deviation, another common measure of spread.

212. (B) It can measure the strength of any monotonic relationship (linear or non-linear).

Spearman's rank correlation coefficient is a non-parametric statistic that evaluates how well the relationship between two variables can be described by a monotonic function. By using ranks instead of raw data, it can capture non-linear associations that a linear measure like Pearson's might miss. It is robust to outliers and does not require the assumption of normality. This makes it particularly useful for analyzing ordinal data or continuous variables with skewed distributions where the general trend is consistent.

213. (C) Sampling error

Sampling error is the inherent difference between a sample statistic and the true population parameter that occurs because researchers observe only a subset of the population. It is not caused by mistakes in data collection or design, but rather by the random variability that comes with selecting different samples. While this error cannot be entirely eliminated in probability sampling, it can be estimated and reduced by increasing the sample size, which improves the precision of the statistical estimates being made.

214. (C) Type I Error

In the framework of hypothesis testing, a Type I error occurs when a researcher incorrectly rejects a null hypothesis that is actually true in the population. This is often referred to as a 'false positive' and is considered a serious mistake in scientific research. The probability of committing this error is controlled by setting the significance level, typically denoted by the Greek letter alpha. Researchers aim to keep this risk low to ensure that their findings of significant effects are genuine.

215. (A) The coefficients (parameters) enter the model in a linear way, not raised to a power or multiplied/divided by other parameters.

Linearity in parameters is a fundamental assumption of the classical linear regression model. It requires that the regression coefficients appear in the equation in a linear form. However, the independent and dependent variables themselves do not have to be linear. For instance, a model can include squared terms or logarithmic transformations of the variables and still be considered a linear regression model as long as the parameters being estimated are not part of any non-linear function or interaction.

216. (D) I, II, III, IV, V

Simultaneity bias is a major challenge in simultaneous equation models that arises because endogenous variables influence each other. This creates a correlation between regressors and error terms, violating OLS assumptions and leading to biased, inconsistent results. Instrumental variable techniques like two-stage least squares are required to provide consistent estimates. Notably, recursive models avoid this problem because their unidirectional causal structure ensures that regressors remain independent of the disturbances, allowing for the sequential use of OLS without incurring bias.

217. (C) Both current exogenous variables and lagged endogenous and exogenous variables.

Predetermined variables are essential components of simultaneous equation models, as their values are fixed before the current period's endogenous variables are determined. This broad category includes all current exogenous variables, which are determined outside the system, as well as any lagged values of both endogenous and exogenous variables from previous periods. Because these variables are independent of current stochastic shocks, they are used to identify the model and form the basis for estimating reduced-form equations in econometrics.

218. (B) The coefficients of the two models are not directly comparable, but their marginal effects are often very similar.

Logit and probit models are both effective for binary choice analysis, differing primarily in their assumed error distributions. While their estimated coefficients have different scales and cannot be directly compared, they generally

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the model's predictions are equally reliable across all levels of the explanatory variables. When this assumption is satisfied, ordinary least squares estimators are efficient and have the minimum possible variance. If the variance changes, a condition known as heteroscedasticity occurs, which requires alternative estimation methods or robust standard errors.

176. (B) II, III, IV, V only

Estimating simultaneous equation models requires methods that address simultaneity bias, which occurs because endogenous variables are correlated with error terms. Indirect least squares, two-stage least squares, and three-stage least squares are all designed to handle this issue, as is maximum likelihood estimation. In contrast, ordinary least squares is generally inappropriate because it produces biased and inconsistent estimates in non-recursive systems. Choosing between these more advanced techniques depends on the model's identification status and the desired level of statistical efficiency.

177. (B) An explanatory variable is endogenous and thus correlated with the error term.

Simultaneity bias is a fundamental problem in econometrics that arises when the causal relationship between the dependent and independent variables is bidirectional. In such systems, at least one explanatory variable is endogenous, meaning its value is determined within the model. This creates a logical feedback loop where the regressor becomes correlated with the error term, violating a primary assumption of ordinary least squares. This correlation leads to parameter estimates that are both biased and inconsistent, regardless of sample size.

178. (B) OLS violates the assumptions of homoscedasticity and normality of errors, and predicted values can be outside the (0,1) range.

Using ordinary least squares for a binary dependent variable is known as the linear probability model, which has several critical flaws. It inherently produces heteroscedastic error terms and non-normal residuals, which invalidates standard t-tests. Most importantly, it can yield predicted probabilities that are less than zero or greater than one, which is logically impossible. Discrete choice models like logit and probit overcome these issues by using non-linear functions to ensure all predicted probabilities stay within the valid range.

179. (D) All of the above.

A stationary time series is a stochastic process whose fundamental statistical properties remain constant over time. This includes having a stable mean and variance, as well as an autocovariance that depends only on the lag between observations. Such series do not exhibit long-term trends or repeating seasonal patterns. In practice, stationarity implies that the series is mean-reverting, meaning that after any temporary shock, the values will eventually return to their consistent long-run average level.

180. (C) Diagnostic checking to see if the residuals are white noise.

In the Box-Jenkins methodology, diagnostic checking is a crucial step performed after model estimation. The primary tool for this is the correlogram of the residuals, which displays their autocorrelation at various lags. If the model is correctly specified and the parameters are well-estimated, the residuals should show no systematic patterns and be completely random. Finding no significant correlations in this correlogram confirms that the residuals are white noise, indicating that the model has successfully captured all available information.

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181. (C) Median

The median is a measure of central tendency that represents the exact middle point of a dataset when all observations are arranged in ascending or descending order. It effectively divides the distribution into two equal parts, with fifty percent of the values falling above it and fifty percent below it. This makes the median particularly useful for describing skewed distributions, as it is not disproportionately influenced by extreme outliers in the way that the arithmetic mean can be.

182. (B) Laspeyres' and Paasche's indices

Fisher's ideal index is a sophisticated measure of price or quantity changes over time. It is calculated by taking the geometric mean of two other popular indices: the Laspeyres index, which uses base-period quantities, and the Paasche index, which uses current-period quantities. This mathematical approach allows the Fisher

197. (C) Has no error term and no unknown parameters to be estimated.

In a simultaneous equation model, a definitional equation or identity is a relationship that is true by definition rather than by behavioral or technical assumptions. Examples include total expenditure equaling the sum of individual components. Because these equations are exact, they do not contain stochastic error terms or unknown structural parameters. While they do not require estimation themselves, identities are essential parts of the model as they provide the necessary mathematical constraints that link the various endogenous variables together.

198. (C) Continuous, but censored at or below a certain value (often zero).

The tobit model is an econometric method specifically designed for analyzing dependent variables that are continuous but censored. This occurs when the variable is observed only when it falls above or below a specific threshold, such as zero for household spending or charitable donations. Standard regression fails in these cases because it cannot handle the concentration of data at the limit. The tobit model accounts for this by combining a probit-like component for the limit observations with a regression for the continuous values.

199. (B) The current and 'q' past values of a random error term.

A moving average process of order q is a time series model where the current value of the series is expressed as a linear combination of a current white noise error term and several of its past values. The parameter q indicates the number of lags included in the model. Unlike autoregressive processes, where the series depends on its own past values, the moving average process focuses on how short-term shocks persist and influence the series over a limited period.

200. (A) Two or more non-stationary time series that are not cointegrated are regressed on each other.

Spurious regression occurs when a regression analysis between non-stationary time series yields a high R-squared and significant t-statistics, even though the variables are completely unrelated. This happens because the stochastic trends in the series create a false sense of association. Without cointegration, these results are misleading and statistically invalid. Researchers must test for unit roots and cointegration to ensure that their findings represent a meaningful long-run economic relationship rather than an accidental alignment of drifting data series.

201. (B) Poisson distribution

The Poisson distribution is a discrete probability distribution that describes the number of times a specific event occurs within a fixed interval of time or space. It is characterized by having only non-negative integer outcomes, such as zero, one, two, and so on. This distribution is widely used to model rare events, such as the number of calls arriving at a switchboard per hour or the occurrences of natural disasters, where events happen independently and at a constant average rate.

202. (A) $P_{01} \times Q_{01} = V_{01}$ (where V_{01} is the value ratio)

The factor reversal test is a rigorous mathematical criterion used to evaluate the consistency of index number formulas. It requires that the product of a price index and a corresponding quantity index should equal the total value ratio between the two periods. In other words, the index should be able to decompose the total change in value into distinct price and quantity components. Satisfying this test is a hallmark of a well-constructed and logically sound index number formula, such as Fisher's index.

203. (C) Sampling distribution of the mean

The sampling distribution of the mean is a theoretical probability distribution of all possible sample means that could be calculated from random samples of a specific size drawn from a population. It describes the variability of the mean from one sample to another. This distribution is essential for inferential statistics, as its properties—such as the standard error and its tendency toward normality—allow researchers to estimate population parameters and determine the significance of their observed sample results with precision.

204. (D) Statement I is false but Statement II is true

A confidence interval provides a range of values that is expected to contain the population parameter. However, a ninety-five percent

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choices and other binary outcomes in various social and economic research contexts.

190. (B) I(1)
A time series is classified as being integrated of order one if it is non-stationary in its original form but achieves stationarity after a single round of differencing. This property is common in many economic variables, like gross domestic product or stock prices, which follow a stochastic trend. By transforming these series through first-differencing, researchers can stabilize the statistical properties of the data, allowing for more reliable analysis and the use of standard time series modeling and forecasting techniques.

191. (B) Justifies the use of the normal distribution for hypothesis testing with large samples, even if the population is not normal.
The central limit theorem is a cornerstone of statistical inference because it describes the behavior of sample means. It asserts that regardless of the population's underlying distribution, the sampling distribution of the mean will be approximately normal as the sample size grows. This property is essential because it allows researchers to use normal-based statistical tests and confidence intervals for a wide variety of data types, provided the sample size is sufficiently large, typically greater than thirty observations.

192. (B) Middle 50 percent of the observations.
Quartile deviation is a measure of dispersion based on the interquartile range, which is the difference between the third and first quartiles. By focusing only on the middle fifty percent of the data, this measure is highly resistant to the influence of extreme outliers. It provides a clear indication of how tightly the central part of the distribution is clustered around the median. This makes it a more robust descriptive statistic than the range when dealing with skewed distributions.

193. (D) Systematic sampling
Systematic sampling is a probability sampling method where researchers select units from a larger population using a fixed, periodic interval. For instance, selecting every tenth person from an alphabetical list starting from a random point. This technique is straightforward to implement and ensures an even spread of the sample across the entire population frame. Provided the list is not ordered in a way that correlates with the variables being studied, it yields a representative sample similar to simple random sampling.

194. (B) The alternative hypothesis specifies a direction (e.g., greater than or less than).
A statistical test is considered one-tailed when the researcher has a specific directional prediction about the relationship or effect being studied. In this case, the alternative hypothesis states that a parameter is either strictly greater than or strictly less than a specific value. Consequently, the entire rejection region is placed in one extreme tail of the probability distribution. This approach increases the power of the test to detect an effect in the specified direction while ignoring any differences in the opposite direction.

195. (C) All independent variables are quantitative.
The classical linear regression model rests on several key assumptions, including linearity in parameters, zero mean of the error term, and homoscedasticity. However, it does not require all independent variables to be quantitative. Researchers frequently use qualitative or categorical information by incorporating dummy variables, which take values of zero or one to represent different groups or conditions. This flexibility allows econometric models to account for a wide range of factors, such as gender, region, or policy changes, in their structural equations.

196. (D) I, II, III and IV
Two-stage least squares is a robust instrumental variable technique used to address endogeneity. In the first stage, it regresses endogenous explanatory variables against all exogenous variables to generate predicted values. These proxies are then used in the second stage to estimate the structural equation via ordinary least squares. This procedure effectively purges the correlation between the regressors and the error term, providing consistent parameter estimates for both exactly identified and over-identified equations in complex systems of simultaneous equations.

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where the dependent variable involves more than two discrete outcomes. It is specifically used when the categories are nominal and unordered, meaning there is no natural ranking between them, such as choosing among different modes of transportation or career paths. The model estimates the probability of selecting each alternative relative to a chosen reference category based on various individual or choice-specific predictors.

169. (C) Autoregressive (p) component

In the Box-Jenkins methodology for time series analysis, the partial autocorrelation function is a critical diagnostic tool. It measures the correlation between observations at two points in time after removing the influence of the intervening observations. This property makes it uniquely suited for identifying the order of the autoregressive component of an ARIMA model. A sharp cut-off in the PACF after a specific number of lags typically indicates the appropriate value for the p parameter in the model.

170. (A) Both A and R are true and R is the correct explanation of A.

Including an irrelevant variable in a regression model is a specification error that does not bias the parameter estimates of the other variables. This is because the expected value of the estimator still equals the true population parameter. However, adding unnecessary predictors consumes degrees of freedom and increases the variances of the estimators. This loss of efficiency makes the coefficients less precise and reduces the power of statistical tests, making the overall model less reliable for inference.

171. (C) 0

Skewness is a statistical measure that quantifies the degree of asymmetry in a probability distribution. In a perfectly symmetric distribution, such as the normal distribution, the left and right sides are mirror images of each other across the mean. Consequently, the third moment about the mean, which forms the basis for calculating the coefficient of skewness, is exactly zero. A value of zero indicates that the data points are balanced equally on both sides of the central average.

172. (C) 0

When two variables are independent, the occurrence of one provides absolutely no information about the value of the other. Consequently, there is no consistent relationship, linear or otherwise, between them. In such cases, the Pearson correlation coefficient, which measures the strength of linear association, will always be exactly zero. However, it is important to remember that a zero correlation only guarantees an absence of linear relationship and does not always imply independence for non-linear associations.

173. (C) It can be more cost-effective and practical when the population is geographically dispersed.

Cluster sampling is often preferred over simple random sampling due to its practical advantages in large-scale research. When a population is spread over a wide geographic area, it is much cheaper and faster to sample entire groups or clusters, such as neighborhoods or schools, rather than attempting to reach individual units scattered everywhere. While it may be less statistically efficient than random sampling, the significant reduction in logistical complexity and data collection costs makes it a highly popular choice for surveys.

174. (B) It is used to test hypotheses about a single population mean when the population standard deviation is unknown and the sample size is small.

The t-test is a fundamental tool in inferential statistics, specifically designed for situations where the researcher has a small sample, typically fewer than thirty observations. Because the population standard deviation is unknown, the test uses the sample standard deviation as an estimate. This introduces additional uncertainty, which the t-distribution accounts for with its thicker tails. It allows for testing whether a sample mean differs significantly from a hypothesized population value or from another sample mean under limited data conditions.

175. (B) The variance of the error term is constant for all values of the independent variables.

Homoscedasticity is a core assumption of the classical linear regression model, stipulating that the variance of the stochastic error term remains constant for every observation. This ensures that

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confidence level means that if we repeat the sampling many times, ninety-five percent of the calculated intervals will contain the true parameter, not that there is a probability for a specific interval. Additionally, a wider interval indicates a larger margin of error, reflecting lower precision. Therefore, researchers prefer narrower intervals for more exact and reliable estimates of population characteristics.

205. (C) Minimum variance

In the context of the BLUE property of ordinary least squares estimators, the term 'best' refers specifically to statistical efficiency. It indicates that among the entire class of estimators that are both linear functions of the data and unbiased, the OLS estimator has the smallest possible variance. This means that OLS provides the most precise and stable estimates of the parameters, as the individual estimates from different samples are clustered as tightly as possible around the true population value.

206. (A) P-1, Q-4, R-3, S-2

Violations of the classical assumptions in linear regression have various consequences for OLS estimators. Heteroscedasticity and autocorrelation both result in inefficiency, meaning the estimators are no longer 'best' despite remaining unbiased. Multicollinearity leads to large standard errors, making it difficult to distinguish individual effects. Omitted variable bias is the most severe, causing the estimators to be both biased and inconsistent. Diagnosing these issues through statistical tests is critical for ensuring the validity and reliability of econometric models and their conclusions.

207. (B) There are not enough predetermined variables excluded from the equation to serve as instruments.

An equation is under-identified when the model's structure does not provide sufficient information to uniquely estimate the structural parameters. According to the order condition, this occurs when the number of excluded predetermined variables is less than what is required to distinguish the equation from others. Without these exclusions, there are not enough instrumental variables available to solve the problem of endogeneity. Consequently, any attempt to estimate the structural coefficients will result in non-unique solutions, making the results statistically uninterpretable.

208. (A) Purge the endogenous explanatory variable of its correlation with the stochastic error term.

The fundamental goal of the two-stage least squares procedure is to overcome the problem of endogeneity. In the first stage, endogenous regressors are replaced with predicted values derived from all the exogenous variables in the system. This process is designed to isolate the exogenous component of the regressor and purge it of any correlation with the error term. This ensures that in the second stage, the model satisfies the classical assumption of regressor independence, leading to consistent and reliable parameter estimates.

209. (C) Ordinal (has a natural ordering, e.g., 'low', 'medium', 'high')

Ordered logit or probit models are specialized econometric techniques used when the dependent variable represents discrete categories with a clear, natural ranking. Examples include survey responses like 'unsatisfied', 'neutral', and 'satisfied', or credit ratings. Unlike multinomial models, these account for the inherent order of the outcomes. They estimate the probability that an individual falls into a specific category based on the value of a latent continuous variable relative to a series of estimated threshold parameters or cut-points.

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210. (A) Yt - Yt-1

Differencing is a common transformation used in time series analysis to achieve stationarity. It involves calculating the change between successive observations by subtracting the previous value from the current one. This process effectively removes stochastic trends and stabilizes the mean of the series over time. A series that becomes stationary after this first difference is considered to be integrated of order one. This transformation is a necessary step before applying various forecasting models like ARIMA to non-stationary economic data.

211. (B) Variance

The variance of a random variable is defined as the expected value of the squared deviations from its mean. It serves as a fundamental measure of dispersion, quantifying how much the possible

hypothesis tests and confidence intervals are accurate and that parameter estimates remain reliable.

226. (A) P-3, Q-2, R-4, S-1

Several Nobel-winning econometricians have made transformative contributions to the field. Robert Engle developed ARCH models to analyze time-varying volatility in financial data. James Heckman pioneered methods to correct for sample selection bias. Daniel McFadden advanced discrete choice analysis with the conditional logit model, which is essential for studying individual decision-making. Christopher Sims introduced vector autoregression models, which became a standard tool for analyzing the dynamic relationships between multiple time series in macroeconomics and policy analysis.

227. (D) Both (A) and (C).

The rank condition for the identification of structural equations is a rigorous mathematical test that determines if unique parameter estimates can be obtained from the data. Unlike the order condition, which is a simple counting rule and only a necessary requirement, the rank condition is both necessary and sufficient. While it is more computationally difficult to apply because it involves evaluating the rank of a specific matrix of coefficients, it provides a definitive answer regarding whether a model is correctly identified for estimation.

228. (A) X-hat is, by construction, uncorrelated with the structural error term.

Two-stage least squares is used when an independent variable is endogenous, meaning it is correlated with the error term. In the first stage, the method regresses the endogenous variable on all exogenous variables to create a predicted value. This predicted value contains only the information from the exogenous predictors. Because these predictors are assumed to be independent of the disturbance, the resulting proxy is, by design, uncorrelated with the error term. Using this proxy in the second stage yields consistent and unbiased parameter estimates.

229. (C) Count data models like Poisson or Negative Binomial

When the dependent variable represents the number of times an event occurs, such as doctor visits or patents filed, it is referred to as count data. These variables are always non-negative integers. Count data models, such as the Poisson or negative binomial models, are specifically designed to handle this type of distribution. They account for the discrete nature of the data and are superior to standard linear regression, which might predict negative values and ignore the specific properties of count processes.

230. (B) Permanent

A time series with a unit root is non-stationary, meaning it does not have a tendency to return to a long-run average level. A key characteristic of such series is that random shocks or innovations have a permanent effect on all future values. Unlike stationary series where the influence of a shock eventually dies out, a unit root series effectively incorporates every past shock into its current level. This persistence is a defining feature of many economic variables like exchange rates or integrated financial prices.

231. (C) 3

Kurtosis is a statistical measure that describes the peakedness and the tail weight of a probability distribution relative to a normal distribution. For a mesokurtic distribution, such as the standard normal distribution, the coefficient of kurtosis is exactly three. Values greater than three indicate a more peaked distribution with fatter tails, known as leptokurtic, while values less than three indicate a flatter distribution with thinner tails, known as platykurtic. This measure provides vital information about the likelihood of extreme values.

232. (C) Specialized type of average used to measure relative changes.

An index number is a unique statistical measure designed to show the relative change in a variable or a group of related variables over time or between different locations. It is often used to track movements in prices, production, or cost of living. By setting a base period as one hundred, index numbers allow for easy comparison of complex data, effectively summarizing how much a specific economic phenomenon has increased or decreased relative to a chosen starting point or reference.

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lead to nearly identical conclusions about the significance and direction of relationships. To provide a practical interpretation, researchers calculate marginal effects, which show the change in probability for a unit change in a predictor. In most empirical studies, these marginal effects are remarkably similar across both modeling approaches.

219. (B) An exponentially decaying or sinusoidal ACF and a sharp cut-off in the PACF.

The behavior of autocorrelation and partial autocorrelation functions is used to identify stationary autoregressive processes. For an AR model, the ACF typically decays slowly toward zero, following an exponential or damped sinusoidal pattern. Most importantly, the PACF exhibits a sharp cut-off after a specific number of lags, which directly indicates the order of the AR process. Recognizing these distinct patterns is a fundamental step in the Box-Jenkins methodology for selecting the most appropriate time series model for forecasting.

220. (A) Both A and R are true and R is the correct explanation of A.

Spurious regression is a misleading result that occurs when two non-stationary variables show a strong statistical association simply because they both contain stochastic trends. Regressing one random walk on another often yields a high coefficient of determination and significant t-statistics, even when no true economic relationship exists. This happens because OLS mistakes the shared trend-like movement for a causal link. To avoid this, researchers must test for unit roots and cointegration before interpreting regression results involving time series data.

221. (C) 0

Skewness is a statistical measure of the lack of symmetry in a probability distribution. A perfectly symmetric distribution is one where the left and right halves are mirror images, with data balanced equally around the mean. The normal distribution is the most famous example of a symmetric distribution, and therefore its coefficient of skewness is exactly zero. This zero value indicates that the mean, median, and mode are all equal and located at the center of the bell-shaped curve.

222. (B) Is based only on the two extreme values.

The range is the simplest measure of dispersion, calculated as the difference between the maximum and minimum values in a dataset. Its primary disadvantage is its extreme sensitivity to outliers, as it depends entirely on the two most extreme observations while ignoring all other data points in between. Consequently, the range may give a misleading impression of the overall variability if the dataset contains even a single unusually high or low value that is not representative of the typical spread.

223. (D) Statement I is false but Statement II is true

The central limit theorem is a powerful tool because it applies to samples from any population, regardless of its original distribution, provided the sample size is large enough. It establishes that the sampling distribution of the mean will be approximately normal. Additionally, the standard error, which measures the precision of the sample mean, is correctly defined as the population standard deviation divided by the square root of the sample size. These principles are fundamental to constructing valid statistical tests and intervals.

224. (B) Fail to reject the null hypothesis.

In hypothesis testing, the acceptance region represents the range of values for a test statistic that are consistent with the null hypothesis being true at a chosen significance level. If the calculated test statistic falls within this region, it indicates that the observed sample results could have easily occurred by random chance. Consequently, there is not enough evidence to support the alternative hypothesis, and the researcher must fail to reject the null hypothesis, maintaining the initial status quo assumption.

225. (C) Using Weighted Least Squares (WLS) or robust standard errors.

Heteroscedasticity involves a non-constant variance in the error terms, which makes ordinary least squares inefficient and invalidates standard t-tests. To correct this, researchers often use robust standard errors, which provide reliable inferences even when heteroscedasticity is present. Alternatively, if the nature of the variance is known, weighted least squares can be applied to transform the model into one with a constant variance. These remedies ensure that

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index to balance the different weighting systems, enabling it to satisfy important theoretical criteria like the time reversal and factor reversal tests, making it highly regarded in economic and statistical analysis.

183. (A) Type I error

In quality control, a Type I error occurs when a producer incorrectly rejects a batch of products that actually meets the required standards. This mistake is known as the producer's risk because it leads to the unnecessary disposal or reworking of good items, causing financial loss. By setting a low significance level, manufacturers attempt to minimize this risk, although doing so often increases the likelihood of a Type II error, which is the consumer's risk of accepting faulty goods.

184. (C) The explanatory variable is not correlated with the error term.

A fundamental assumption of the classical linear regression model is the exogeneity of the independent variables, which is formally stated as the expected value of the error term being zero given the values of X. This implies that there is no systematic relationship or correlation between the regressors and the stochastic disturbance. When this assumption is satisfied, it ensures that the ordinary least squares estimators are unbiased, as the model can clearly separate the effects of the predictors from random noise.

185. (A) An exogenous or a lagged endogenous variable.

In simultaneous equation models, predetermined variables are those whose values are fixed at the time the endogenous variables are being determined. This category includes all current exogenous variables, which are determined outside the model, and all lagged variables, whether endogenous or exogenous, from previous time periods. Because these variables are already determined or independent of the current error terms, they serve as essential building blocks for identifying the system and are used in reduced-form equations for estimation.

186. (B) III, II, IV, I

The evolution of econometrics is marked by the sequential development of various estimation techniques. Ordinary least squares was formalized early in the nineteenth century. Later, logit and probit models emerged to handle discrete choices. As simultaneous equation systems became prominent in the mid-twentieth century, two-stage least squares was developed to address endogeneity bias. Finally, specialized models like the tobit model were introduced to deal with censored data, reflecting the field's growing ability to handle increasingly complex data structures and research questions.

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187. (C) The number of times the series needs to be differenced to become stationary.

In an ARIMA model, the parameter d represents the integration component of the time series. It indicates the number of times the original data must be differenced to remove non-stationarity, such as a stochastic trend, and achieve a stable mean and variance. Most economic series are integrated of order one, meaning they require differencing once. Identifying the correct value for d is a critical first step in the Box-Jenkins methodology to ensure that subsequent modeling and forecasting are valid.

188. (A) Both A and R are true and R is the correct explanation of A.

Identification is a prerequisite for estimating structural parameters in simultaneous models. The order condition is a necessary requirement that checks if enough predetermined variables are excluded from an equation. If this condition is not met, the equation is under-identified, meaning the structural coefficients cannot be uniquely derived from the reduced-form estimates. Because identification is a logical necessity, failing the order condition makes it impossible to distinguish the equation from others, regardless of any other mathematical properties of the system.

189. (B) The predicted probabilities from Probit/Logit models are constrained to be between 0 and 1.

A major limitation of the linear probability model is that its predicted values can fall outside the logical range of zero to one. Logit and probit models solve this by using non-linear cumulative distribution functions—logistic and normal, respectively—to map the linear predictors to a probability scale. This ensures that all estimated probabilities are bounded within the unit interval. This theoretical consistency makes them far superior for modeling individual

233. (D) The natural variation in statistics from random samples.

Non-sampling errors are mistakes that occur during the research process that are not related to the act of sampling itself. These include poorly designed questionnaires, interviewer bias, data entry errors, and non-response from participants. Unlike sampling error, which is an inherent part of selecting a subset and decreases with larger samples, non-sampling errors can occur in both samples and censuses. They are often harder to quantify but can be minimized through careful planning, training, and rigorous data cleaning procedures.

234. (B) The probability of a Type II error.

In the context of hypothesis testing, the Greek letter beta represents the probability of committing a Type II error. This error occurs when a researcher fails to reject a null hypothesis that is actually false in the population. Beta is inversely related to the power of the test, which is defined as one minus beta. Controlling the level of beta is important to ensure that a statistical test is sensitive enough to detect real effects or differences when they truly exist.

235. (C) The regression coefficients cannot be estimated.

Perfect multicollinearity occurs when one or more independent variables in a regression model are perfectly linear functions of others. In this situation, the model is mathematically unable to distinguish the individual effects of the variables. From a computational standpoint, the matrix of independent variables becomes singular and cannot be inverted. As a result, the ordinary least squares procedure fails, and it is impossible to obtain numerical estimates for the regression coefficients without removing the redundant variables or adding more information.

236. (D) I, II, III and IV

Simultaneous equation models are estimated using various techniques depending on their identification status. Indirect least squares works only for exactly identified equations, while two-stage least squares is more versatile, handling both exactly identified and over-identified cases. When an equation is exactly identified, both methods yield the same results. For entire systems, three-stage least squares is often preferred because it accounts for correlation between the error terms of different equations, providing more efficient parameter estimates through a joint estimation process.

237. (B) Both Both endogenous variables.

In a standard economic model of a single market, price and quantity are determined simultaneously by the interaction of supply and demand. Because their values are determined within the system of equations, both variables are classified as endogenous. This means that changes in supply will affect both price and quantity, just as changes in demand will. Due to this bidirectional relationship, price and quantity are typically correlated with the error terms in both the supply and demand equations, necessitating specialized estimation techniques.

238. (B) Depends on the values of all independent variables in the model.

In a probit model, the marginal effect measures the change in the probability of an outcome for a one-unit increase in an independent variable. Because the model uses a non-linear cumulative normal distribution, this effect is not constant across all observations. Instead, it depends on the starting values of all the predictors in the model. Researchers typically calculate marginal effects at the sample means or for specific profile types to provide a meaningful and practical interpretation of the regression results.

239. (B) Test for cointegration.

The Engle-Granger two-step method is a foundational procedure in econometrics used to test for cointegration between non-stationary time series. The first step involves running an OLS regression between the variables and collecting the residuals. The second step applies a unit root test, such as the Augmented Dickey-Fuller test, to these residuals. If the residuals are stationary, it indicates that the variables share a stable, long-run equilibrium relationship, allowing for the estimation of an error correction model to capture dynamics.

240. (B) 'p' past values of the series itself.

An autoregressive process of order p is a time series model where the current value of a variable is expressed as a linear function of its own previous values from p past periods. The

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equation basis. Non-recursive models, however, involve simultaneity that leads to biased and inconsistent OLS estimates. Therefore, non-recursive systems require more advanced econometric methods to correctly handle the bidirectional relationships and ensure that the parameter estimates are valid.

290. (A) A non-recursive model.
A non-recursive model is characterized by simultaneity, where a variable can affect another variable that, in turn, influences the original variable. This circular or bidirectional causality creates feedback loops within the system. These complex interactions are common in economic phenomena but require specialized statistical treatment to avoid estimation errors that would occur if the interdependence of the variables were ignored.

291. (C) To model situations involving a choice from a finite set of alternatives.
Discrete choice models are designed to analyze decision-making scenarios where individuals choose from a finite set of mutually exclusive alternatives. Unlike standard regression for continuous variables, these models handle qualitative outcomes, such as selecting a mode of transport. They provide a framework for understanding how different factors influence the likelihood of a specific choice being made by a decision-maker.

292. (A) qualitative and categorical.
The dependent variable in a discrete choice model is best described as qualitative and categorical. It represents a specific choice or category rather than a measured numerical quantity. For example, it might record whether a person chooses to drive, walk, or take a bus. This qualitative nature necessitates the use of specialized econometric techniques, such as logit or probit models, for analysis.

293. (D) the principle of utility maximization.
The underlying theoretical principle of discrete choice models is utility maximization. It assumes that decision-makers evaluate the available alternatives and select the one that provides them with the highest level of personal satisfaction or utility. This behavioral assumption allows researchers to model the relationship between the attributes of choices, the characteristics of individuals, and the resulting probabilities of specific outcomes.

294. (B) The probability of choosing a specific alternative.
The output of a discrete choice model is typically expressed as the probability that a decision-maker will select a particular alternative from the available set. Rather than predicting a single definitive outcome, the model quantifies the likelihood of various choices based on observable factors. This probabilistic approach accounts for the inherent randomness and unobservable influences present in human decision-making processes.

295. (C) It is modeled as a function of attributes and characteristics plus a random component.
In discrete choice models, the utility function is not directly observed but is modeled as a mathematical function of the attributes of the alternatives and the characteristics of the decision-maker. It also includes a stochastic or random component to capture unmeasured influences. This approach allows statisticians to use observable data to infer the underlying preferences that drive individual choices among finite alternatives.

296. (D) The data points are collected in a specific temporal order.
The defining characteristic of time series data is that observations are collected in a specific temporal order over multiple time periods. Unlike cross-sectional data, which captures many subjects at one moment, time series data tracks a single entity or variable sequentially. This ordering introduces unique dependencies and patterns, such as trends and cycles, which are central to the analysis of such datasets.

297. (A) the statistical properties of the series are constant over time.
Stationarity is a statistical property of a time series where its core characteristics, such as mean, variance, and autocorrelation, remain constant over time. This property is essential for many econometric models because it ensures that the underlying process generating the data does not change. For valid inference and forecasting,

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up to q and then drop abruptly to zero. This sharp cut-off is a defining characteristic that helps researchers distinguish moving average models from autoregressive processes, which typically show a more gradual decay.

248. (A) Both A and R are true and R is the correct explanation of A.

A stationary time series is characterized by having stable statistical properties, such as a constant mean and variance, over time. Because the mean is constant, any random shock or deviation from this level is only temporary. Over time, the influence of these shocks fades away, and the series naturally returns to its long-run average. This mean-reverting behavior is a key feature of stationarity, ensuring that the series does not exhibit permanent changes or drift indefinitely away from its central path.

249. (D) Standard Deviation

Central tendency refers to the statistical measures that identify a single value representing the center or typical value of a distribution. The mean, median, and mode are the three most common measures used for this purpose. In contrast, the standard deviation is a measure of dispersion or variability. It quantifies how much individual data points deviate from the mean. While central tendency describes where the data is located, dispersion describes how spread out the observations are across the range of values.

250. (A) Determine if there is enough statistical evidence to infer that a certain condition is true for a population.

Hypothesis testing is a formal statistical procedure used to make decisions about a population based on sample data. It involves evaluating two competing claims: the null hypothesis, representing no effect, and the alternative hypothesis, representing a specific difference or relationship. By calculating the probability of observing the sample results if the null were true, researchers can determine if the evidence is statistically significant. This framework allows for objective conclusions about whether a hypothesized theory is likely supported by the data.

251. (B) To serve as the mathematical framework for handling uncertainty.

Probability theory acts as the mathematical cornerstone for statistics and econometrics by providing tools to quantify uncertainty. It assigns numerical values to the likelihood of specific events occurring within a range from zero to one. This framework allows researchers to model randomness systematically, enabling the development of complex statistical distributions and inferential techniques used throughout empirical analysis.

252. (A) The specific shape and characteristics of the distribution.

Moments are fundamental statistical parameters that define the essential characteristics and geometric properties of a probability distribution. They quantify various aspects such as central location, dispersion, asymmetry, and peakedness. By calculating these values, statisticians can describe the precise shape of a distribution, which is necessary for understanding the underlying behavior of random variables in a dataset.

253. (C) states that the sampling distribution of the mean approximates normality for large samples.

The Central Limit Theorem is vital because it establishes that the sampling distribution of the mean becomes approximately normal as sample sizes increase. This property holds regardless of the population's actual distribution shape, provided the variance is finite. Consequently, researchers can reliably use normal distribution properties to construct confidence intervals and perform hypothesis tests in diverse practical scenarios.

254. (D) The second central moment.

The second central moment, commonly known as variance, serves as a primary statistical measure for quantifying the spread or dispersion of data points around the mean. It reflects how much the values in a distribution deviate from the central average. Understanding this variation is essential for assessing data consistency and the precision of estimates within statistical and econometric models.

255. (C) When the sample size is sufficiently large, due to the Central Limit Theorem.

When the underlying population distribution is unknown, reliable inferences about the sample

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CHAPTER 04
Mathematical Economics

1. Which of the following represents the union of two sets A and B?
(A) The set of all elements that are in A but not in B.
(B) The set of all elements that are in either A or B, or in both.
(C) The set of all elements that are in both A and B.
(D) The set of all elements that are not in A and not in B.

2. For a function to be continuous at a point c, which of the following conditions is NOT necessary?
(A) The function must be differentiable at c.
(B) The function f(c) must be defined.
(C) The limit of the function as x approaches c must exist.
(D) The limit of the function as x approaches c must be equal to f(c).

3. Consider the following two statements regarding mathematical functions:
Statement I : A function is a rule that assigns to each element in a set A exactly one element in a set B.
Statement II : The set of all possible input values for a function is called its range.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

4. If a consumer's utility function is given by U = f(x, y), where x and y are two goods, what does the partial derivative $\partial U/\partial x$ represent?
(A) The total utility derived from consuming x and y.
(B) The average utility of good x.
(C) The cross-price elasticity of demand for good x.
(D) The marginal utility of good x.

5. Match the items in List I with the items in List II.
List I: (Set Notation)
P. $A \cup B$
Q. $A \cap B$
R. A'
S. $A \subset B$
List II: (Description)
1. A is a proper subset of B
2. Complement of set A
3. Intersection of A and B
4. Union of A and B
Choose the correct option from those given below:
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-3, S-4

6. A sequence where the difference between any two consecutive terms is constant is known as:
(A) A geometric sequence.
(B) An arithmetic sequence.
(C) A harmonic sequence.
(D) A Fibonacci sequence.

7. What is the derivative of the function $f(x) = 5x^4 + 3x^2 - 7$ with respect to x?
(A) $20x^3 + 6x - 7$
(B) $4x^3 + 2x$
(C) $5x^3 + 3x$
(D) $20x^3 + 6x$

8. A consumer buys 5 units of good x when its price is ₹10. When the price rises to ₹12, the consumer buys 4 units. Applying the concept of differential calculus, what is the approximate point price elasticity of demand?
(A) -0.5
(B) -1.0
(C) -2.0
(D) -0.4

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Index numbers facilitate the comparison of complex data by expressing values in relation to a common base period or location, which is typically assigned a value of one hundred. This standardization transforms absolute figures into relative terms, making it easier to observe trends and changes over time. Such a framework simplifies the analysis of economic indicators across different timeframes.

265. (A) Correlation.
Correlation is the statistical concept specifically concerned with quantifying the degree to which two variables move together in a linear fashion. It uses a coefficient ranging from negative one to positive one to describe the strength and direction of this relationship. This measure helps researchers understand how variables co-vary, though it does not imply that one variable influences the other.

266. (B) To overcome the impracticality of studying an entire population.
Researchers utilize sampling because studying an entire population is often impractical or impossible due to constraints involving time, cost, and accessibility. By selecting a representative subset of individuals, investigators can gather manageable data to estimate the characteristics of the whole group. This process allows for efficient research while maintaining the ability to draw meaningful conclusions about the broader population.

267. (B) the probability distribution of a statistic from all possible samples of a given size.
A sampling distribution represents the theoretical probability distribution of a specific statistic, such as the mean, calculated from all possible samples of a fixed size drawn from a population. It describes how the statistic varies across different samples. Understanding this distribution is essential for statisticians to determine the precision of their estimates and to quantify the uncertainty inherent in sampling.

268. (A) the sampling method employed.
The validity of statistical inferences derived from a sample is heavily dependent on the sampling method used to select participants. A rigorous method ensures the sample is truly representative of the population, reducing bias and error. If the selection process is flawed, the resulting statistics may not accurately reflect the population parameters, leading to incorrect conclusions and unreliable research findings.

269. (C) Because it helps in quantifying the uncertainty of a sample statistic.
The concept of a sampling distribution is fundamental because it provides the mathematical basis for quantifying the uncertainty associated with a sample statistic. By analyzing the properties of this distribution, such as its mean and variance, statisticians can determine how closely a sample estimate is likely to match the true population parameter. This assessment is critical for making reliable statistical inferences.

270. (D) A sample statistic is used to estimate a population parameter.
A sample statistic is a numerical characteristic calculated from a subset of data, which is then used to estimate the corresponding population parameter. While the parameter represents a fixed value for the entire population, the statistic serves as a practical estimate derived from observable evidence. This relationship forms the core of inferential statistics, allowing researchers to generalize findings from samples.

271. (C) To draw conclusions about a population based on sample data.
The fundamental goal of statistical inference is to draw general conclusions about a population or a theoretical model based on evidence provided by a sample. This process involves using data analysis techniques to deduce the properties of an underlying probability distribution. It allows researchers to move beyond simple descriptions of a dataset to make broader, probabilistic statements about the entire group.

272. (B) A statement of no effect, no difference, or status quo.
In the framework of hypothesis testing, the null hypothesis typically represents a statement of no effect, no difference, or the status quo. It serves as the starting assumption that the research claim has no statistical significance. Researchers test sample data against this hypothesis to determine if there is sufficient evidence to reject it in favor of an alternative research claim.

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mean are possible if the sample size is sufficiently large. This feasibility is grounded in the Central Limit Theorem, which guarantees that the sampling distribution of the mean will follow a normal pattern. This statistical foundation allows for accurate estimation and hypothesis testing in real-world research contexts.

256. (B) To identify a representative value for the center of a distribution.

Measures of central tendency function to summarize a dataset by identifying a single, representative value that captures the center of the distribution. These metrics, including the mean, median, and mode, provide a simplified overview of what constitutes a typical observation. Selecting the appropriate measure depends on the specific characteristics of the data and the presence of extreme values.

257. (D) The degree of variation or spread among data points.

Measures of dispersion are used to quantify the extent of variation or spread among individual data points within a given distribution. They describe how much observations differ from the central average, providing insight into the dataset's heterogeneity. High dispersion indicates that values are widely scattered, while low dispersion suggests that data points are clustered closely around the mean.

258. (A) the data points are spread out over a considerable range.

A high standard deviation signifies that the individual data points in a set are spread out over a wide range of values relative to the mean. This indicates significant variability and inconsistency within the observations. In contrast, a low standard deviation would mean the data points are tightly clustered, reflecting higher consistency and a more uniform distribution of values.

259. (C) The data's distribution and the existence of outliers.

The selection of a specific measure of central tendency is primarily determined by the distribution of the data and the existence of outliers. For instance, the mean is sensitive to extreme values, whereas the median remains more robust in skewed distributions. Analyzing these factors ensures that the chosen statistic accurately reflects the typical value of the dataset being studied.

260. (A) The variance.

Variance is explicitly categorized as a measure of dispersion because it calculates the average of the squared differences between each data point and the mean. It provides a numerical value representing the spread of the data. Other measures of dispersion include the range and standard deviation, which similarly describe the degree of variability present within a statistical population or sample.

261. (D) To measure relative changes in a variable or group of variables over time.

Index numbers serve as specialized statistical tools designed to measure and track relative changes in a variable or a group of variables over specific periods or locations. By establishing a base period, usually set at one hundred, these numbers simplify the comparison of data trends. They are commonly applied in economics to monitor price levels, production, and market performance.

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262. (B) A strong negative linear relationship.

A correlation coefficient of negative zero point nine indicates a strong negative linear relationship between two variables. This value suggests that as one variable increases, the other variable consistently tends to decrease at a nearly constant rate. Since the coefficient is close to negative one, the linear association is considered very robust, reflecting a high degree of predictable inverse movement.

263. (C) it does not demonstrate or prove causation between variables.

A significant limitation of correlation analysis is that it does not demonstrate or prove a causal link between two variables. While a correlation coefficient quantifies the strength and direction of a linear relationship, it cannot establish that changes in one variable actually cause changes in another. Misinterpreting correlation as causation is a frequent error in statistical and economic data analysis.

264. (D) By expressing data in relation to a common base value.

parameter values could potentially explain the same observed data. Solving this problem is a prerequisite for estimation, as it ensures that the structural relationships can be distinctly identified and measured.

282. (B) A unique set of structural parameter values cannot be determined from the data.
If a structural equation is described as unidentified, it means that a unique set of structural parameter values cannot be determined from the available data. In this situation, the information provided by the reduced-form model is insufficient to distinguish between different theoretical possibilities. Consequently, the data cannot be used to estimate the parameters, making the empirical analysis of that equation impossible.

283. (B) The reduced-form expresses endogenous variables in terms of exogenous variables.
The relationship between a structural model and its reduced-form is defined by how variables are expressed. While the structural model depicts theoretical economic relationships, the reduced-form expresses the endogenous variables solely as functions of exogenous variables and error terms. This transformation is necessary for estimation because it isolates the impact of external factors on the variables being determined within the system.

284. (A) It is a necessary condition that relates the number of variables in the model.
The order condition serves as a necessary, though not sufficient, requirement for the identification of an equation within a simultaneous system. It focuses on the relationship between the number of variables included in and excluded from a specific equation. By satisfying this condition, researchers take a required step toward ensuring that unique estimates for the structural parameters can eventually be calculated.

285. (C) There is more than one way to derive estimates for the structural parameters.
When an equation is overidentified, it implies that there is more than one way to derive estimates for the structural parameters from the reduced-form coefficients. This occurs because the model provides more information than is strictly necessary for identification. While this allows for estimation, it requires specific econometric techniques to reconcile the multiple available methods for calculating the structural parameter values.

286. (D) The dependent variables are functions of other dependent variables.
The defining characteristic of a simultaneous equation model is that the dependent variables are functions of other dependent variables in addition to exogenous variables. This structure reflects complex real-world situations, such as market equilibrium, where multiple factors are determined jointly. Because of this interdependence, these models require specialized estimation methods to account for the feedback loops and joint determination of variables.

287. (C) The presence of bidirectional causality or feedback loops in non-recursive models.
The presence of bidirectional causality or feedback loops is the key feature that distinguishes non-recursive models from recursive ones. In a non-recursive system, endogenous variables can influence each other simultaneously. Conversely, recursive models feature a unidirectional causal flow, where variables are determined in a sequential order without feedback. This distinction is vital for choosing appropriate estimation techniques for the model.

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288. (B) unidirectional.
In a recursive model, the causal relationship among endogenous variables is strictly unidirectional. This means the system is structured so that variables are determined in a sequence, where each variable only depends on previously determined variables and exogenous factors. Because there are no feedback loops, the estimation process is simplified, often allowing for the use of standard linear regression techniques for each equation.

289. (D) Because recursive models can often be estimated with OLS, while non-recursive models cannot.
The distinction between recursive and non-recursive models is critical for estimation because recursive models can often be estimated using Ordinary Least Squares on an individual

parameter p determines the lag length or memory of the process. These models are widely used to capture temporal dependence and momentum in data. By analyzing how past observations influence the present, AR models provide a powerful framework for understanding and forecasting dynamic behavior in economic and financial series.

241. (A) P(A)

Independent events are defined as those where the occurrence of one event has no influence on the probability of the other event happening. Mathematically, this means that the conditional probability of event A, given that event B has occurred, is exactly the same as the original, unconditional probability of event A. This property simplifies many probability calculations and is a key assumption in various statistical models where the observations are assumed to be independent of each other.

242. (A) Mean > Median > Mode

In a positively skewed distribution, the tail of the data extends toward the higher values on the right. This skewness pulls the arithmetic mean in the direction of the tail, making it the largest of the three primary measures of central tendency. The median is located between the mean and the mode, while the mode remains at the peak of the distribution. This relationship highlights how a few unusually high values can disproportionately increase the average relative to the typical values.

243. (C) Standard normal distribution

The t-distribution is a symmetric, bell-shaped probability distribution that is wider and has thicker tails than the standard normal distribution. Its specific shape is determined by the degrees of freedom, which are related to the sample size. As the number of observations increases, the uncertainty in estimating the standard deviation decreases. Consequently, the t-distribution becomes taller and narrower, eventually converging to the standard normal distribution once the sample size becomes sufficiently large, typically over thirty observations.

244. (B) Square of the correlation coefficient between the independent and dependent variables.

In simple linear regression, the coefficient of determination, or R-squared, is a measure of the model's goodness-of-fit. It represents the proportion of the total variation in the dependent variable that is successfully explained by the independent variable. Mathematically, in a simple model with one regressor, it is exactly equal to the square of the Pearson correlation coefficient. Values range from zero to one, with higher values indicating that the model provides a more accurate fit for the observed data.

245. (B) The explanatory variables are uncorrelated with the error term.

Simultaneity occurs in econometric models when there is a bidirectional causal relationship between the dependent and independent variables. This feedback loop ensures that the explanatory variables are determined within the system and become correlated with the stochastic error term. This violation of the independence assumption is critical because it invalidates the fundamental requirements for the ordinary least squares method. Consequently, OLS produces parameter estimates that are biased and inconsistent, necessitating the use of alternative techniques like instrumental variable estimation.

246. (B) I, II, III, V only

Modern econometrics utilizes various models for different data types. The linear probability model has flaws like predicting probabilities outside the zero-to-one range. Logit and probit models improve on this by using logistic and normal distributions. The tobit model is essential for analyzing censored dependent variables. While logit and probit often yield similar conclusions, their coefficients have different scales and are not directly comparable. Choosing the correct specification is vital for obtaining valid parameter estimates and reliable statistical results in discrete choice and limited dependent variable analysis.

247. (A) A sharp cut-off in the ACF at lag q.

The autocorrelation function is the primary tool used to identify the order of a moving average process in time series analysis. For an MA process of order q, the current value depends only on a finite number of past shocks. Consequently, the ACF will show significant correlations for lags

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non-stationary data must be transformed into a stationary series before analysis.

298. (B) identify patterns and forecast future values.
A primary objective of time series analysis is to identify the underlying patterns within a sequence of observations and use that information to forecast future values. By decomposing the data into components like trends and seasonality, researchers can understand the nature of the phenomenon over time. This predictive capability is highly valuable for planning and decision-making in economics and various other fields.

299. (B) The seasonality component.
Seasonality is one of the key components into which a time series can be decomposed. It represents systematic, calendar-related fluctuations that repeat over a fixed period, such as quarterly or monthly cycles. Identifying seasonality, along with trends and cyclical components, allows researchers to better understand the various factors influencing the data and improves the accuracy of statistical models and forecasts.

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300. (A) spurious regression results.
Ignoring the unique features of time series data, such as temporal dependencies and non-stationarity, can lead to spurious regression results. Spurious regression occurs when two unrelated variables appear to have a significant relationship because they exhibit similar trends over time. This leads to unreliable conclusions and invalid statistical inferences, highlighting the importance of using specialized techniques for time series analysis.

273. (D) The probability of observing the sample result, if H_0 were true, was very low.

A researcher rejects the null hypothesis when the probability of observing the sample result, assuming the null hypothesis is true, is extremely low. This probability, known as the p-value, must fall below a pre-specified significance level. Such a result suggests that the observed data is highly unlikely to have occurred by chance, supporting the adoption of the alternative hypothesis.

274. (A) It is a value calculated from sample data to help decide between hypotheses.

The test statistic is a specific value calculated from sample data that serves as the basis for deciding whether to reject the null hypothesis. It measures how far the sample results deviate from what is expected under the null hypothesis. This value is compared against critical thresholds or used to determine the p-value, facilitating a formal, probabilistic decision-making process.

275. (C) a sample-specific observation to a general conclusion.

Hypothesis testing provides a formal structure that allows researchers to transition from sample-specific observations to broader, generalizable conclusions about a population. By applying probabilistic logic to sample data, investigators can determine if their findings are likely to hold true for the entire group. This process is essential for validating research claims and advancing scientific knowledge through rigorous statistical evidence.

276. (A) That the estimator's expected value is equal to the true parameter value.

The unbiased property of an estimator signifies that its expected value is equal to the true value of the population parameter being estimated. This means that, on average, the estimator will not systematically overstate or understate the actual parameter. Achieving unbiasedness is a critical objective in econometric modeling to ensure that the estimation process provides a fair representation of reality.

277. (D) the minimum variance among all linear unbiased estimators.

Within the BLUE acronym, the term 'Best' specifically indicates that the estimator possesses the minimum variance among all possible linear unbiased estimators. A lower variance means the estimator is more efficient and precise, producing results that are closer to the true parameter value across different samples. This property is highly desirable for ensuring the reliability and quality of statistical estimates.

278. (B) It indicates the highest quality of estimation within its class.

An estimator being BLUE is significant because it represents the highest quality of estimation within the specific class of linear and unbiased estimators. It ensures that the chosen rule for calculating parameters is both accurate on average and the most precise available. This benchmark provides researchers with confidence that their econometric model's coefficients are the most reliable possible under given conditions.

279. (C) The estimator is a linear function of the dependent variable.

The 'Linear' characteristic of a BLUE estimator implies that the formula used to calculate the parameter estimates is a linear function of the dependent variable. This property simplifies the mathematical application and interpretation of the estimator within regression models. It describes the structural form of the estimation rule rather than requiring the underlying economic relationships themselves to be strictly linear in nature.

280. (D) The Gauss-Markov Theorem.

The Gauss-Markov theorem establishes the specific conditions under which the Ordinary Least Squares estimator is considered the Best Linear Unbiased Estimator. This theorem provides the theoretical justification for using OLS in linear regression models, provided its assumptions are met. Following these conditions ensures that the estimated coefficients are efficient and represent the most precise linear unbiased estimates available for the model.

281. (A) whether unique estimates for structural parameters can be obtained.

The identification problem is primarily concerned with determining whether it is possible to obtain unique numerical estimates for the structural parameters of an econometric model. This issue arises when multiple sets of

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9. Identify the incorrect statement regarding matrix properties.
(A) Matrix addition is commutative, i.e., $A + B = B + A$.
(B) Matrix addition is associative, i.e., $(A + B) + C = A + (B + C)$.
(C) Matrix multiplication is always commutative, i.e., $AB = BA$.
(D) A matrix multiplied by its inverse gives the identity matrix, i.e., $AA^{-1} = I$.

10. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In static optimization, the Lagrange multiplier method is used to find the optimal values of a function subject to equality constraints.
Reason (R) : The Lagrange multiplier (λ) measures the marginal effect on the objective function of a small change in the constant of the constraint.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

11. In the context of a Leontief Input-Output model, what does the matrix $(I - A)^{-1}$ represent, where A is the technology matrix?
(A) The final demand vector.
(B) The total output vector.
(C) The primary input matrix.
(D) The Leontief inverse matrix.

12. A first-order difference equation is generally expressed in the form:
(A) y_t + a_1y_{t-1} + a_2y_{t-2} = c
(B) y_t + ay_{t-1} = c
(C) dy/dt + ay(t) = c
(D) $d^2y/dt^2 + a_1dy/dt + a_2y = c$

13. A function f(x) is said to be monotonically increasing if:
(A) $f'(x) < 0$ for all x in its domain.
(B) $f''(x) > 0$ for all x in its domain.
(C) $f'(x) \geq 0$ for all x in its domain.
(D) $f''(x) < 0$ for all x in its domain.

14. Given a Total Cost function $TC = Q^3 - 10Q^2 + 50Q + 100$, the Marginal Cost (MC) function is found by:
(A) Integrating the TC function.
(B) Dividing the TC function by Q.
(C) Finding the second derivative of the TC function.
(D) Finding the first derivative of the TC function.

15. Consider the following statements regarding sets:
(i) The empty set is a subset of every set.
(ii) If a set A has n elements, its power set has 2n elements.
(iii) The intersection of a set with its complement is the universal set.
(iv) The union of a set with the empty set is the set itself.
Which of the above statement(s) is/are correct?
(A) (i) and (ii) only
(B) (i) and (iv) only
(C) (ii) and (iii) only
(D) (iii) and (iv) only

16. What does a determinant of a square matrix being equal to zero imply?
(A) The matrix has a unique inverse.
(B) The matrix is singular.
(C) The matrix is an identity matrix.
(D) The matrix is a symmetric matrix.

17. In linear programming, the function that is to be maximized or minimized is called the:
(A) Constraint function.
(B) Objective function.
(C) Feasible solution.
(D) Optimal solution.

18. Consider the following two statements regarding mathematical equations:
Statement I : A first-order linear differential equation is an equation of the form dy/dt + u(t) y = w(t).
Statement II : The Harrod-Domar growth model is an application of second-order differential equations.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.

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(D) 20

38. Consider the following two statements regarding mathematical functions:
Statement I : A function is a rule that assigns to each element in a set A exactly one element in a set B.
Statement II : The set of all real numbers (R) is not a vector space over itself.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

39. The second derivative test for a function of one variable, f(x), at a critical point x=c states that if f''(c) < 0, then the point is a:
(A) Local minimum.
(B) Point of inflection.
(C) Saddle point.
(D) Local maximum.

40. Consider the following statements about Linear Programming Problems (LPP):
(i) An LPP must have a single, well-defined linear objective function.
(ii) All constraints in an LPP must be linear inequalities or equations.
(iii) The decision variables in an LPP must be non-negative.
(iv) An LPP can have a non-linear objective function if the constraints are linear.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (iv) only
(B) (ii), (iii) and (iv) only
(C) (i), (ii) and (iii) only
(D) (i), (iii) and (iv) only

41. The equation dy/dt = kY, where Y is national income and k is a constant, is a simple form of which type of equation used in economic growth models?
(A) A first-order difference equation.
(B) A second-order difference equation.
(C) A first-order differential equation.
(D) A static optimization problem.

42. What is the determinant of a 2x2 matrix A = [[a, b], [c, d]]?
(A) ad - bc
(B) ab - cd
(C) ac - bd
(D) a + d

43. A firm faces the demand function P = 120 - 2Q. What is the total revenue function (TR)?
(A) TR = 120 - 4Q
(B) TR = 120Q - 2
(C) TR = 120/Q - 2
(D) TR = 120Q - $2Q^2$

44. The condition for a stationary point in a function of one variable, y = f(x), is:
(A) f'(x) = 0
(B) f''(x) = 0
(C) f'(x) > 0
(D) f'(x) < 0

45. Consider the following statements about static optimization:
(i) Static optimization deals with finding an optimal value at a single point in time.
(ii) The first-order condition is a necessary but not sufficient condition for a local extremum.
(iii) The second-order condition helps to distinguish between a maximum and a minimum.
(iv) In constrained optimization, the constraint is ignored to find the optimal solution.
(v) The value of the Lagrange multiplier indicates the sensitivity of the constraint to changes in the objective function.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii) only
(B) (i), (iii), and (iv) only
(C) (ii), (iii), and (v) only
(D) (i), (iv), and (v) only

46. In a simple market model, the solution to a first-order difference equation shows a non-oscillating convergence to equilibrium when the slope parameter 'a' in Y_t = a*Y_{t-1} + c is:
(A) 0 < a < 1
(B) -1 < a < 0
(C) a < -1
(D) a > 1

47. Identify the correct pair.
(A) (Lagrange Multiplier, Constrained

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(D) m = q

29. For a function z = f(x, y), the second-order direct partial derivative f_xx measures:
(A) The effect of a change in y on the marginal function of x.
(B) The rate of change of the function with respect to y.
(C) The rate of change of the slope of the function in the x-direction.
(D) The slope of the level curve.

30. Match the items in List I with the items in List II.
List I: (Mathematical Concept)
P. First Derivative
Q. Lagrange Multiplier
R. Difference Equation
S. Determinant of a Matrix
List II: (Economic Application)
1. Cobweb Model
2. Marginal Cost
3. Cramer's Rule for solving market equilibrium
4. Shadow price in utility maximization
Choose the correct option from those given below:
(A) P-1, Q-3, R-2, S-4
(B) P-2, Q-4, R-3, S-1
(C) P-2, Q-4, R-1, S-3
(D) P-4, Q-1, R-2, S-3

31. Consider the function $y = e^{ax}$. What is its derivative, $d\frac{y}{d}x$?
(A) $a \cdot e^{ax}$
(B) e^{ax}
(C) $\left(\frac{1}{a}\right) \cdot e^{ax}$
(D) $ax \cdot e^{ax-1}$

32. The concept of duality in linear programming implies that:
(A) Every LP problem has a unique solution.
(B) Every LP problem has an associated LP problem called the dual.
(C) The objective function of the primal is always equal to the objective function of the dual.
(D) A maximization problem cannot have a dual.

33. Which of the following correctly defines a null set?
(A) A set containing a single element, zero.
(B) A set containing no elements at all.
(C) A set that contains all possible elements.
(D) A set containing an infinite number of elements.

34. A solution to a first-order difference equation $y_t = a \cdot y_{\{t-1\}} + c$ is considered dynamically stable if:
(A) |a| < 1
(B) |a| > 1
(C) |a| = 1
(D) a = 0

35. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : If the determinant of a matrix is non-zero, the matrix is invertible.
Reason (R) : The inverse of a matrix A is given by Adj(A) / |A|, which is defined only when |A| is not equal to zero.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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36. In the context of the Input-Output model, the elements a_{ij} of the technology matrix A represent:
(A) The amount of output from industry i required to produce one unit of final demand for industry j.
(B) The total output of industry i.
(C) The total final demand for industry j's product.
(D) The amount of input from industry i required to produce one unit of output for industry j.

37. For a total revenue function TR = 100Q - $2Q^2$, the marginal revenue (MR) is zero when output (Q) is:
(A) 50
(B) 100
(C) 25

greater than demand elasticity)

79. The set of equations derived from setting the partial derivatives of the Lagrangian function to zero are known as:
(A) The first-order conditions.
(B) The second-order conditions.
(C) The Hawkins-Simon conditions.
(D) The complementary slackness conditions.

80. Match the items in List I with the items in List II.
List I: (Function Type)
P. Linear Function
Q. Quadratic Function
R. Exponential Function
S. Logarithmic Function
List II: (Example f(x))
1. $y = 3x^2 + 2x - 5$
2. $y = \log_e(x)$
3. $y = 4x + 7$
4. y = 5^x
Choose the correct option from those given below:
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-2, R-1, S-3

81. A consumer has a utility function U = xy. If the consumer consumes 4 units of x and 5 units of y, what is the marginal utility of x?
(A) 4
(B) 5
(C) 20
(D) 9

82. In a Leontief system, if the technology matrix is A and the final demand vector is D, the total output vector x is determined by the equation:
(A) $X = (I - A)^1 \cdot D$
(B) $X = A \cdot D$
(C) $X = (I + A) \cdot D$
(D) $X = (I - A) \cdot D$

83. The dual of a maximization linear programming problem is a:
(A) Maximization problem.
(B) Non-linear problem.
(C) Minimization problem.
(D) Problem with no objective function.

84. The solution to the difference equation $y_t = y_{\{t-1\}} + 2$ with an initial value $y_0 = 5$ is:
(A) $5 \cdot 2^t$
(B) $2 + 5t$
(C) 7^t
(D) $y_t = 5 + 2t$

85. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : Differentiability of a function at a point implies continuity at that point.
Reason (R) : Continuity of a function at a point implies differentiability at that point.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

86. What is the transpose of the matrix A = [[1, 2], [3, 4]]?
(A) [[1, 3], [2, 4]]
(B) [[-1, -2], [-3, -4]]
(C) [[4, -2], [-3, 1]]
(D) [[2, 1], [4, 3]]

87. A point where the first derivative of a function is zero but the second derivative is also zero is potentially a:
(A) Local maximum.
(B) Local minimum.
(C) Non-stationary point.
(D) Point of stationary inflection.

88. If A and B are two events, the probability of A or B occurring is given by P(A ∪ B) = P(A) + P(B) - P(A ∩ B). This is an application of the principle of inclusion-exclusion in which field?
(A) Set Theory
(B) Linear Algebra
(C) Differential Calculus
(D) Difference Equations

89. A firm is minimizing its cost C = wL + rK subject to a production quota Q_0 = f(L, K). In the optimal solution, the value of the Lagrange multiplier (λ) represents the:
(A) Marginal product of labor.
(B) Marginal rate of technical substitution.
(C) Marginal cost of production.

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optimization)
(B) (Cramer's Rule, Finding elasticity)
(C) (Leontief Inverse, Solving differential equations)
(D) (Hessian Matrix, Solving difference equations)

48. A function is defined as $f(x) = |x|/x$. The limit of this function as x approaches 0:
(A) is 1
(B) does not exist
(C) is -1
(D) is 0

49. In an Input-Output table, the sum of all elements in a column of the technology matrix (A) represents:
(A) The total value of an industry's gross output.
(B) The total value of intermediate inputs per unit of output for that industry.
(C) The total value added for the specific industry.
(D) The total final demand for that industry's product.

50. Consider the following two statements regarding matrices:
Statement I : All symmetric matrices are square matrices.
Statement II : All square matrices are symmetric matrices.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

51. The solution of a differential equation that contains as many arbitrary constants as the order of the equation is called the:
(A) Particular solution.
(B) Trivial solution.
(C) Steady-state solution.
(D) General solution.

52. What is the value of the determinant of an identity matrix of any order?
(A) 0
(B) n (the order of the matrix)
(C) -1
(D) 1

53. If the marginal cost (MC) is constant at 10, what is the shape of the total cost (TC) curve?
(A) A horizontal line.
(B) A U-shaped curve.
(C) An upward-sloping straight line.
(D) A downward-sloping line.

54. The set of all vectors that can be formed by linear combinations of a given set of vectors is called the:
(A) Basis of the vector space.
(B) Span of the set of vectors.
(C) Dimension of the vector space.
(D) Null space of the vectors.

55. Match the items in List I with the items in List II.
List I: (Term)
P. Sequence
Q. Series
R. Function
S. Set
List II: (Definition)
1. A rule of correspondence between two non-empty sets.
2. A well-defined collection of distinct objects.
3. The sum of the terms of a sequence.
4. An ordered list of numbers.
Choose the correct option from those given below:
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-3, S-4

56. In the context of the Cobweb model, if the elasticity of supply is greater than the elasticity of demand, the price will:
(A) Exhibit explosive oscillations.
(B) Converge to equilibrium.
(C) Exhibit uniform oscillations.
(D) Remain constant.

57. A firm's profit (π) is maximized when:
(A) Marginal Revenue equals Marginal Cost and the slope of MC is less than the slope of MR.
(B) Total Revenue equals Total Cost and the firm operates at its maximum capacity.

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(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

19. The sum of an infinite geometric series with first term 'a' and common ratio 'r' converges if:
(A) |r| > 1
(B) |r| = 1
(C) |r| < 1
(D) r < 0

20. Consider the following statements about Vector Spaces:
(i) A vector space is a collection of objects called vectors, which may be added together and multiplied by scalars.
(ii) The set of all 2x2 matrices with real entries forms a vector space under standard matrix addition and scalar multiplication.
(iii) A subspace must contain the zero vector.
(iv) The dimension of a vector space is the number of vectors in any basis for the space.
(v) All vector spaces must have a finite dimension.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (v) only
(B) (i), (ii), (iii) and (iv) only
(C) (iii), (iv) and (v) only
(D) (i), (iv) and (v) only

21. For a function of two variables, z = f(x, y), a point (a, b) is a saddle point if:
(A) f_xx > 0 and f_yy > 0 at (a, b).
(B) f_xx < 0 and f_yy < 0 at (a, b).
(C) f_xx * f_yy - $(f_{xy})^2$ < 0 at (a, b).
(D) f_xx * f_yy - $(f_{xy})^2$ > 0 at (a, b).

22. The Hawkins-Simon conditions are related to the viability of which economic model?
(A) The Solow Growth Model.
(B) The Leontief Input-Output Model.
(C) The Harrod-Domar Model.
(D) The Cobweb Model.

23. Which of the following is NOT an application of differential calculus in economics?
(A) Calculating marginal revenue from a total revenue function.
(B) Finding the profit-maximizing level of output.
(C) Determining the price elasticity of supply.
(D) Solving a system of linear equations using Cramer's Rule.

24. A firm's production function is $Q = K^0.5 \cdot L^0.5$. The firm wants to maximize output subject to a cost constraint $C = rK + wL$. Which is the most appropriate method to solve this problem?
(A) Applying the Lagrange multiplier method.
(B) Using Cramer's rule.
(C) Solving a first-order difference equation.
(D) Calculating the determinant of the technology matrix.

25. Arrange the following steps for solving a constrained optimization problem using the Lagrange multiplier method in the correct chronological order:
(i) Set up the Lagrangian function.
(ii) Check the second-order conditions.
(iii) Write down the objective function and the constraint.
(iv) Find the first-order partial derivatives and set them to zero.
(v) Solve the system of equations from the first-order conditions.
Choose the correct sequence:
(A) (i), (iii), (iv), (v), (ii)
(B) (iii), (i), (iv), (v), (ii)
(C) (iii), (iv), (i), (v), (ii)
(D) (i), (iv), (v), (ii), (iii)

26. The set of all points (x, y) that satisfy all constraints of a linear programming problem simultaneously is known as the:
(A) Feasible region.
(B) Optimal region.
(C) Infeasible region.
(D) Unbounded solution.

27. A dynamic economic model where the current period's supply depends on the previous period's price is a classic application of:
(A) Differential equations.
(B) Linear programming.
(C) Matrix algebra.
(D) Difference equations.

28. If A is an m x n matrix and B is a p x q matrix, the product AB is defined only if:
(A) m = p
(B) n = p
(C) n = q

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(B) Production possibility frontier.
(C) Isoquant.
(D) Indifference curve.

69. In linear programming, if a constraint is added to a maximization problem, the optimal value of the objective function will:
(A) Increase.
(B) Decrease or stay the same.
(C) Always decrease.
(D) Stay the same.

70. Consider the following statements about matrices and determinants:
(i) Only square matrices have determinants.
(ii) The determinant of a product of matrices is the product of their determinants, i.e., $|AB| = |A||B|$.
(iii) The transpose of a matrix is found by interchanging its rows only.
(iv) If two rows of a matrix are identical, its determinant is 1.
(v) Cramer's rule can be used to solve any system of linear equations.
Which of the above statement(s) is/are incorrect?
(A) (i), (ii) and (iii) only
(B) (ii), (iii) and (iv) only
(C) (iii), (iv) and (v) only
(D) (i), (iv) and (v) only

71. The stability of the equilibrium in the Harrod-Domar model is an application of:
(A) First-order difference equations.
(B) Constrained optimization.
(C) Linear programming.
(D) First-order differential equations.

72. If a function f(x) has a point of inflection at x=c, which condition is most likely to be true?
(A) $f''(c) = 0$
(B) $f'(c) = 0$
(C) $f'(c) \neq 0$
(D) $f''(c) > 0$

73. Consider the following two statements regarding linear programming:
Statement I : The solution to a linear programming problem, if it exists, must occur at one of the corner points of the feasible set.
Statement II : The feasible set of a linear programming problem is always a convex set.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

74. If set A = {1, 2, 3} and set B = {3, 4, 5}, what is $A \cap B$?
(A) {3}
(B) {1, 2, 3, 4, 5}
(C) {1, 2}
(D) {4, 5}

75. Arrange the following mathematical concepts in the logical order of their development, from most fundamental to more advanced application:
(i) Differential Calculus
(ii) Sets and Functions
(iii) Constrained Optimization
(iv) Linear Algebra (Matrices)
Choose the correct sequence:
(A) (ii), (iv), (i), (iii)
(B) (i), (ii), (iv), (iii)
(C) (iv), (ii), (i), (iii)
(D) (ii), (i), (iv), (iii)

76. The rank of a matrix is defined as:
(A) The number of rows in the matrix.
(B) The maximum number of linearly independent rows or columns.
(C) The number of columns in the matrix.
(D) The number of non-zero elements in the matrix.

77. For a cost function $C(q) = 10 + 5q + 2q^2$, the average cost (AC) is:
(A) $5 + 4q$
(B) $10 + 5q$
(C) $10/q + 5 + 2q$
(D) $2q^2$

78. Which of the following is an incorrect pair regarding the Cobweb model?
(A) (Stable case, Supply curve steeper than demand curve)
(B) (Unstable case, Demand curve steeper than supply curve)
(C) (Uniform oscillation, Slopes have equal absolute values)
(D) (Explosive oscillation, Supply elasticity

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(C) Marginal Revenue equals Marginal Cost and the slope of MC is greater than the slope of MR.
(D) Average Revenue equals Average Cost and the total profit of the firm is exactly zero.

58. Which of the following is an example of a second-order differential equation?
(A) $d\frac{y}{d}t + 5y = 10$
(B) $d^2y/dt^2 + 3d\frac{y}{d}t + 2y = 0$
(C) $y_t - 0.5y_{\{t-1\}} = 2$
(D) $y_t + 2y_{\{t-1\}} + y_{\{t-2\}} = 5$

59. The problem of maximizing utility U(x,y) subject to the budget constraint $p_x \cdot x + p_y \cdot y = M$ is an example of:
(A) Unconstrained optimization.
(B) A linear programming problem.
(C) A static optimization problem with an equality constraint.
(D) An input-output analysis.

60. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : The Hawkins-Simon condition states that the determinant of the (I - A) matrix must be positive.
Reason (R) : A positive determinant for (I - A) ensures that a non-negative final demand vector will result in a non-negative total output vector.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

61. For a system of linear equations Ax = B, a unique solution exists if:
(A) The determinant of matrix A is zero.
(B) The matrix A is rectangular.
(C) The matrix A is non-singular.
(D) The vector B is a null vector.

62. The derivative of ln(x) with respect to x is:
(A) x
(B) e^x
(C) 1
(D) $\frac{1}{x}$

63. The corner points of the feasible region in a graphical solution to a linear programming problem represent:
(A) The potential optimal solutions.
(B) The sets of infeasible solutions.
(C) The points with non-binding constraints.
(D) The points with zero objective values.

64. What is the common ratio of the geometric sequence 4, 12, 36, 108, ...?
(A) 3
(B) 4
(C) 8
(D) 1/3

65. Consider the following statements regarding Differential Calculus:
(i) The derivative of a constant is always one.
(ii) The chain rule is used for differentiating a function of a function.
(iii) The second derivative of a function gives the rate of change of its slope.
(iv) A function can be continuous at a point without being differentiable at that point.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (iii) only
(B) (ii), (iii) and (iv) only
(C) (i), (iii) and (iv) only
(D) (i), (ii) and (iv) only

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66. A particular solution of a difference equation is any solution that is free of:
(A) Arbitrary constants.
(B) Variables.
(C) Parameters.
(D) Exponents.

67. A square matrix A is called orthogonal if:
(A) A = A' (A is equal to its transpose)
(B) $A \cdot A^1 = I$
(C) $A \cdot A' = I$ (A multiplied by its transpose is the identity matrix)
(D) |A| = 0

68. A consumer is indifferent between bundle A (5, 6) and bundle B (7, 5). The marginal rate of substitution (MRS) between these two points is derived from the slope of the:
(A) Budget line.

(D) Average cost of production.

90. Consider the following statements about functions and continuity:
(i) A polynomial function is continuous everywhere.
(ii) A rational function is continuous wherever its denominator is non-zero.
(iii) The function f(x) = 1/x is continuous at x = 0.
(iv) The limit of a function at a point must be equal to the function's value at that point for continuity.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (iii) only
(B) (i), (ii) and (iv) only
(C) (ii), (iii) and (iv) only
(D) (i), (iii) and (iv) only

91. The graphical method is suitable for solving linear programming problems with:
(A) Only one decision variable.
(B) Any number of decision variables.
(C) More than three decision variables.
(D) Only two decision variables.

92. The particular solution or equilibrium value of the first-order difference equation $y_t + ay_{\{t-1\}} = c$ is:
(A) $\frac{c}{a}$
(B) $\frac{c}{1+a}$
(C) $\frac{c}{1-a}$
(D) c

93. Consider the following two statements regarding matrices:
Statement I : The determinant of a triangular matrix (upper or lower) is the product of its diagonal elements.
Statement II : The inverse of a diagonal matrix is a diagonal matrix whose elements are the reciprocals of the original diagonal elements.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

94. The 'power set' of a set S is the set of all:
(A) Elements in S.
(B) Proper subsets of S.
(C) Elements not in S.
(D) Subsets of S.

95. A producer wishes to maximize profit given by $(L,K) = P \cdot Q(L,K) - wL - rK$. Consider the following statements regarding the first-order conditions for unconstrained profit maximization:
(i) The value of the marginal product of labor must equal the wage rate ($P \cdot MP_L = w$).
(ii) The value of the marginal product of capital must equal the rental rate ($P \cdot MP_K = r$).
(iii) The marginal rate of technical substitution must equal the input price ratio ($MRTS = \frac{w}{r}$).
(iv) Total revenue must equal total cost.
(v) The Lagrange multiplier must be positive.
Which of the above statement(s) is/are correct?
(A) (i) and (ii) only
(B) (i), (ii), and (iii) only
(C) (iii), (iv), and (v) only
(D) (i), (ii), (iii), and (iv) only

96. The time path of a variable in a dynamic model described by a differential equation is obtained by:
(A) Differentiating the equation.
(B) Integrating the equation.
(C) Finding the equilibrium value.
(D) Applying Cramer's rule.

97. The elasticity of demand is defined as $= \left(d\frac{Q}{d}P\right) \cdot (\frac{P}{Q})$.
If the demand curve is $Q = 100 - 2P$, what is the elasticity at P = 20?
(A) -1
(B) -2/3
(C) -3/2
(D) -4/3

98. An identity matrix (I) is a square matrix with:
(A) All elements equal to 1.
(B) All elements equal to 0.
(C) Ones on the main diagonal and zeros elsewhere.
(D) Zeros on the main diagonal and ones elsewhere.

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99. In static optimization problems, what is the role of the second-order condition?
(A) To find the stationary points of the function.
(B) To ensure a solution exists.
(C) To distinguish between a maximum, minimum, or saddle point.
(D) To define the constraints of the problem.

100. Identify the incorrect statement regarding the Leontief Input-Output model.
(A) It assumes a linear production function with no substitution between inputs.
(B) The technology matrix 'A' is always a square matrix.
(C) The Hawkins-Simon conditions ensure a non-negative output for any non-negative final demand.
(D) The model is primarily used for dynamic analysis of economic growth.

101. The solution to a homogeneous first-order difference equation $y_t + ay_{\{t-1\}} = 0$ is:
(A) $y_t = A(a)^t$
(B) $y_t = A + c$
(C) $y_t = A\left(-a\right)^t$
(D) $y_t = \frac{c}{1+a}$

102. If A = {x | x is an even number} and B = {x | x is a prime number}, what is A ∩ B?
(A) {} (The empty set)
(B) {2}
(C) {All prime numbers}
(D) {All even numbers}

103. The chain rule of differentiation is used when $y = f(g(x))$. The derivative dy/dx is given by:
(A) $f'(g(x))$
(B) $f'(x) \cdot g'(x)$
(C) $f(g'(x))$
(D) $f'(g(x)) \cdot g'(x)$

104. A vector in a vector space that cannot be written as a linear combination of other vectors in a given set is said to be:
(A) Linearly independent.
(B) Linearly dependent.
(C) A null vector.
(D) A basis vector.

105. Match the items in List I with the items in List II.
List I: (Matrix Type)
P. Symmetric Matrix
Q. Skew-Symmetric Matrix
R. Singular Matrix
S. Identity Matrix
List II: (Property)
1. Determinant is zero
2. A = A'
3. Acts as the multiplicative identity
4. A = -A'
Choose the correct option from those given below:
(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-4, R-1, S-3
(C) P-2, Q-4, R-3, S-1
(D) P-3, Q-1, R-2, S-4

106. In a constrained minimization problem, the Lagrange multiplier (λ) can be interpreted as the:
(A) Increase in the optimal value of the objective function per unit increase in the constraint constant.
(B) Decrease in the optimal value of the objective function per unit increase in the constraint constant.
(C) Optimal value of the objective function.
(D) Rate of change of the constraint function.

107. In the context of linear programming, the term 'slack variable' is used to:
(A) Convert a 'greater than or equal to' inequality into an equality.
(B) Convert the objective function into a constraint.
(C) Represent the cost of an unused resource.
(D) Represent the unused capacity of a resource.

108. Which of the following is an application of a second-order difference equation in economics?
(A) Basic Harrod-Domar growth model.
(B) Samuelson's multiplier-accelerator interaction model.
(C) Simple Cobweb model.
(D) Static utility maximization.

109. If the total cost function is $TC = 100 + 4Q + Q^2$, at what level of output (Q) is Average Cost (AC) minimized?

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(A) 5
(B) 2
(C) 10
(D) 20

110. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In the Cobweb model, if the supply curve is steeper than the demand curve (in absolute terms), the price converges to equilibrium.
Reason (R) : A steeper supply curve implies that producers react less strongly to price changes than consumers, dampening oscillations.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

111. The set of all outcomes in a probability experiment is known as a:
(A) Sample Space
(B) Null Set
(C) Power Set
(D) Subset

112. The product rule for differentiation states that the derivative of u(x)v(x) is:
(A) u'(x)v'(x)
(B) u'(x)v(x) + u(x)v'(x)
(C) u'(x)v(x) - u(x)v'(x)
(D) u'(x) / v'(x)

113. A basis for a vector space is a set of vectors that are:
(A) Linearly dependent and span the space.
(B) Linearly independent and span the space.
(C) Orthogonal to each other.
(D) Linearly independent but do not span the space.

114. The equilibrium of a dynamic system is said to be globally stable if:
(A) The system returns to equilibrium from any starting point.
(B) The system returns to equilibrium only from specific starting points.
(C) The system never returns to equilibrium.
(D) The system oscillates around the equilibrium.

115. Consider the following statements regarding matrix multiplication:
(i) It is associative: (AB)C = A(BC).
(ii) It is commutative: AB = BA.
(iii) It is distributive over addition: A(B+C) = AB + AC.
(iv) The product of a matrix and the identity matrix is the matrix itself: AI = IA = A.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii) only
(B) (i), (ii), and (iv) only
(C) (i), (iii), and (iv) only
(D) (ii), (iii), and (iv) only

116. A function y = f(x) has a local minimum at x = c if, in the immediate vicinity of c:
(A) f'(c) = 0 and f''(c) < 0
(B) f'(c) > 0 and f''(c) = 0
(C) f'(c) < 0 and f''(c) = 0
(D) f'(c) = 0 and f''(c) > 0

117. Consider the following two statements regarding linear programming:
Statement I : The dual of the dual of a linear programming problem is the original primal problem.
Statement II : The number of variables in the dual problem is equal to the number of constraints in the primal problem.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

118. The solution to the differential equation dy/dt = 0 is:
(A) y = t
(B) y = c (a constant)
(C) y = e^t
(D) y = 1/t

119. A set which is not finite is called:
(A) A null set
(B) A singleton set
(C) A universal set
(D) An infinite set

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(D) Non-negative

205. Match the items in List I with the items in List II.
List I: (Term)
P. Determinant of 2x2 matrix [[a,b],[c,d]]
Q. Derivative of x^n
R. Sum of infinite geometric series, |r|<1
S. Condition for matrix product AB to exist
List II: (Symbol/Formula)
1. $\frac{a}{1-r}$
2. nx^{n-1}
3. Number of columns in A = Number of rows in B
4. ad - bc
Choose the correct option from those given below:
(A) P-1, Q-2, R-4, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-4, Q-1, R-2, S-3
(D) P-3, Q-2, R-1, S-4

206. A firm's average revenue (AR) function is given by P = 150 - 3Q. The marginal revenue (MR) function is:
(A) MR = 150Q - $3Q^2$
(B) MR = 150 - 3Q
(C) MR = -3
(D) MR = 150 - 6Q

207. A set S is a 'subset' of set T if:
(A) Every element of S is also in T.
(B) Every element of T is also in S.
(C) S and T have no elements in common.
(D) S and T have the same number of elements.

208. The 'intertemporal budget constraint' is a concept used in models involving:
(A) A single time period.
(B) Decisions made over multiple time periods.
(C) Only production decisions.
(D) Only government policy.

209. The first-order condition for unconstrained maximization of a function $f(x_1, x_2, ..., x_n)$ is:
(A) All second-order partial derivatives are negative.
(B) All first-order partial derivatives are equal to zero.
(C) The function is equal to zero.
(D) The determinant of the Hessian matrix is positive.

210. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : The Input-Output model assumes fixed coefficients of production.
Reason (R) : The model assumes that there is no substitution between inputs, and the amount of each input required per unit of output is constant.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

211. If the demand for a product is Q = 500 / P, what is the price elasticity of demand?
(A) -0.5
(B) -2
(C) -1
(D) -P

212. A system of linear equations is called homogeneous if:
(A) All coefficients are one.
(B) The number of equations equals the number of variables.
(C) The coefficient matrix is symmetric.
(D) The constant term in every equation is zero.

213. Consider the following two statements regarding linear programming:
Statement I : The set of feasible solutions for a linear programming problem is a convex set.
Statement II : A set is convex if the line segment joining any two points in the set lies entirely within the set.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

214. The dynamic stability of the Harrod-Domar growth path depends critically on the relationship between:
(A) The marginal propensity to consume and

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vectors.

130. Match the items in List I with the items in List II.

List I: (Optimization Problem)

P. Unconstrained Maximization

Q. Constrained Maximization

R. Unconstrained Minimization

S. Constrained Minimization

List II: (Economic Example)

1. Consumer maximizing utility subject to a budget.
2. Firm minimizing cost for a given output level.
3. Monopolist maximizing profit by choosing output.
4. Firm minimizing average cost by choosing output.

Choose the correct option from those given below:

(A) P-1, Q-3, R-2, S-4

(B) P-3, Q-1, R-4, S-2

(C) P-3, Q-1, R-2, S-4

(D) P-4, Q-2, R-1, S-3

131. The general solution of a non-homogeneous linear differential equation is the sum of:

(A) Two particular solutions.

(B) Two complementary functions.

(C) The complementary function and the particular integral.

(D) The particular integral and a constant.

132. Which of the following is NOT a property of sets?

(A) Commutative Law: $A \cup B = B \cup A$

(B) Associative Law: $(A \cup B) \cup C = A \cup (B \cup C)$

(C) Distributive Law: $A \cup (B \cap C) = (A \cup B) \cap (A \cup C)$

(D) Additive Law: $A + B = B + A$

133. A production function Q = f(L,K) is homogeneous of degree n if:

(A) $\lambda \cdot f(L,K) = n \cdot f(L,K)$

(B) $\lambda \cdot f(L+,K+) = {}^{n} \cdot f(L,K)$

(C) $\lambda \cdot f(L,K) = {}^{n} \cdot f(L,K)$

(D) $\lambda \cdot f(L,K) = n \cdot f(L,K)$

134. In a linear programming problem, a 'surplus variable' is introduced to:

(A) Convert a 'less than or equal to' inequality into an equality.

(B) Convert a 'greater than or equal to' inequality into an equality.

(C) Ensure non-negativity of decision variables.

(D) Represent the profit from an activity.

135. Read the following assertion and reason carefully and choose the correct option.

Assertion (A) : Cramer's rule is a method for solving a system of linear equations AX=B.

Reason (R) : Cramer's rule can be applied if and only if the determinant of the coefficient matrix A is non-zero.

(A) Both A and R are true and R is the correct explanation of A.

(B) Both A and R are true but R is not the correct explanation of A.

(C) A is true but R is false.

(D) A is false but R is true.

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136. The solution path of a first-order difference equation $y_t - ay_{\{t-1\}} = c$ exhibits damped oscillations when:

(A) $-1 < a < 0$

(B) $0 < a < 1$

(C) $a < -1$

(D) $a > 1$

137. The total differential of the function z = f(x, y) is given by:

(A) $dz = (\partial z/\partial x) + (\partial z/\partial y)$

(B) $dz = (\partial z/\partial x)dx - (\partial z/\partial y)dy$

(C) $dz = (\partial z/\partial x)dx + (\partial z/\partial y)dy$

(D) $dz = dx + dy$

138. The adjugate (or adjoint) of a square matrix is the:

(A) Transpose of its cofactor matrix.

(B) Inverse of the matrix.

(C) Transpose of the matrix.

(D) Determinant of the matrix.

139. A consumer's budget constraint is given by 10x + 20Y = 500. What is the slope of the budget line, assuming Y is on the vertical axis?

(A) -2

(B) -10

(C) -25

(D) -0.5

120. Consider the following conditions for a viable economic solution in a Leontief Input-Output model:
(i) The technology matrix A must be non-negative.
(ii) The final demand vector D must be non-negative.
(iii) The determinant of (I-A) must be positive.
(iv) All principal minors of the Leontief matrix (I-A) must be positive.
(v) The total output X must be strictly positive.
Choose the most complete and correct set of conditions (Hawkins-Simon conditions):
(A) (i) and (ii) only
(B) (iii) and (v) only
(C) (i), (ii), (iii) and (iv) only
(D) (i), (iii), and (v) only

121. The quotient rule for differentiation states that the derivative of $u\frac{x}{v}(x)$ is:
(A) $\frac{u(x)v'(x) - u'(x)v(x)}{[v(x)]^2}$
(B) $u\frac{'(x)}{v}'(x)$
(C) $\frac{u'(x)v(x) - u(x)v'(x)}{[v(x)]^2}$
(D) $\frac{u'(x)v(x) + u(x)v'(x)}{[v(x)]^2}$

122. In a vector space, a linear combination of vectors $v_1, v_2, ..., v_n$ is an expression of the form:
(A) $c_1v_1 + c_2v_2 + ... + c_nv_n$, where c_i are scalars.
(B) $v_1 + v_2 + ... + v_n$, representing a simple sum.
(C) $c(v_1 + v_2 + ... + v_n)$, where c is a fixed scalar.
(D) $v_1v_2...v_n$, which represents a vector product.

123. The function $L = f(x, y) + \lambda[M - g(x, y)]$ is known as the:
(A) Objective function.
(B) Constraint function.
(C) Lagrangian function.
(D) Hamiltonian function.

124. In the context of difference equations, a steady state refers to a state where:
(A) The variable grows at a constant rate.
(B) The variable oscillates uniformly.
(C) The variable explodes to infinity.
(D) The variable remains constant over time.

125. Arrange the following steps in solving a system of linear equations using the matrix inversion method (for $Ax = B$) in the correct chronological sequence:
(i) Calculate the determinant of matrix A.
(ii) Find the inverse of matrix A, A^{-1}.
(iii) Write the system of equations in matrix form $AX = B$.
(iv) Premultiply both sides by A^{-1} to find $X = A^{-1}B$.
Choose the correct sequence:
(A) (iii), (i), (ii), (iv)
(B) (i), (iii), (ii), (iv)
(C) (iii), (ii), (i), (iv)
(D) (i), (ii), (iii), (iv)

126. An unbounded solution in a linear programming problem occurs when:
(A) The feasible region contains no points that satisfy every constraint simultaneously.
(B) The problem yields multiple distinct optimal solutions with the same objective value.
(C) Every constraint in the problem is expressed as a 'less than or equal to' inequality.
(D) The objective function value can be increased infinitely without violating any constraints.

127. The sum of the first n terms of an arithmetic series is given by:
(A) $S_n = \frac{n}{2} \cdot [2a + (n-1)d]$
(B) $S_n = a \cdot \frac{1 - r^n}{1 - r}$
(C) $S_n = a + (n-1)d$
(D) $S_n = a \cdot r^{n-1}$

128. If the cross-price elasticity of demand between two goods is positive, the goods are:
(A) Complements.
(B) Substitutes.
(C) Unrelated.
(D) Giffen goods.

129. The number of linearly independent vectors in a set is determined by the:
(A) Number of elements in each vector.
(B) Rank of the matrix formed by the vectors.
(C) Sum of the vector elements.
(D) Determinant of the matrix formed by the

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150. A matrix is called a 'zero matrix' or 'null matrix' if:
(A) Its determinant is zero.
(B) All its elements are zero.
(C) It has no inverse.
(D) All its diagonal elements are zero.

151. In the context of a Leontief model, what does the primary input coefficient represent?
(A) The amount of input from another industry.
(B) The total output of an industry.
(C) The final demand for a product.
(D) The amount of a non-produced input (like labor) per unit of output.

152. For a production function $q = f(L, K)$, the marginal rate of technical substitution (MRTS) of L for K is given by:
(A) $\frac{MP_L}{MP_K}$
(B) $\frac{MP_K}{MP_L}$
(C) The second derivative of the production function.
(D) The sum of the marginal products.

153. An 'infeasible solution' to a linear programming problem means that:
(A) The optimal value is exactly zero.
(B) The objective function is unbounded.
(C) No set of variables satisfies constraints.
(D) Multiple optimal solutions exist here.

154. The common difference in the arithmetic sequence 15, 11, 7, 3, ... is:
(A) 4
(B) -4
(C) 1.36
(D) -1.36

155. Match the items in List I with the items in List II.
List I: (Equation/Model)
P. Harrod-Domar Model
Q. Leontief Model
R. Utility Maximization
S. Cobweb Model
List II: (Mathematical Field)
1. Difference Equations
2. Constrained Optimization
3. Differential Equations
4. Linear Algebra (Matrices)
Choose the correct option from those given below:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-3, R-2, S-1

156. The stability of a market equilibrium described by a first-order differential equation $d\frac{y}{d}t = a(y_d - y_s)$ depends on the sign of:
(A) The demand intercept.
(B) The adjustment coefficient 'a'.
(C) The supply intercept.
(D) The equilibrium price.

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157. If f'(x) > 0 and f''(x) > 0 for a function, the function is:
(A) Increasing at a decreasing rate.
(B) Decreasing at a decreasing rate.
(C) Increasing at an increasing rate.
(D) Decreasing at an increasing rate.

158. The dimension of a vector space is the:
(A) Total number of vectors in the space.
(B) Number of elements in each vector.
(C) Sum of all vector components.
(D) Number of vectors in any basis for the space.

159. Identify the incorrect pair.
(A) (Function, a rule of correspondence)
(B) (Sequence, an ordered list of numbers)
(C) (Series, a collection of distinct objects)
(D) (Set, a collection of distinct objects)

160. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In a linear programming problem, every point in the feasible region represents a possible solution.
Reason (R) : The optimal solution, if one exists, must be at a corner point of the feasible region.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

161. A function $f(x, y) = x^a \cdot y^b$ is an example of what type of function?

183. Which of the following is not a type of matrix?
(A) Scalar
(B) Vector
(C) Tensor
(D) Diagonal

184. The solution $y_t = y_c + y_p$ is the general solution for a:
(A) Homogeneous first-order difference equation.
(B) Homogeneous second-order differential equation.
(C) System of linear equations.
(D) Non-homogeneous first-order difference equation.

185. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : In consumer theory, the Lagrange multiplier (λ) associated with the budget constraint represents the marginal utility of income.
Reason (R) : The value of λ indicates how much the consumer's utility would increase if their income were to increase by one unit.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

186. The concept of a limit is fundamental to defining:
(A) Continuity and derivatives.
(B) Sets and series.
(C) Matrices and vectors.
(D) Linear programming.

187. The second-order condition for a maximum of a function of two variables, z = f(x, y), requires that at a stationary point:
(A) $f_{\times} < 0$ and $f_{\times} \cdot f_{y}y - (f_{x}y)^2 < 0$
(B) $f_{\times} > 0$ and $f_{\times} \cdot f_{y}y - (f_{x}y)^2 < 0$
(C) $f_{\times} > 0$ and $f_{\times} \cdot f_{y}y - (f_{x}y)^2 > 0$
(D) $f_{\times} < 0$ and $f_{\times} \cdot f_{y}y - (f_{x}y)^2 > 0$

188. In the dual of a linear programming problem, the objective function coefficients of the dual are derived from:
(A) The objective function coefficients of the primal.
(B) The right-hand side constants of the primal constraints.
(C) The coefficients of the primal constraint matrix.
(D) The slack variables of the primal.

189. A matrix A is idempotent if:
(A) $A^2 = I$
(B) A' = A
(C) $A^2 = A$
(D) A = 0

190. Consider the following statements about difference and differential equations:
(i) Difference equations deal with discrete time intervals.
(ii) Differential equations deal with continuous time.
(iii) The Cobweb model is an application of differential equations.
(iv) The Harrod-Domar growth model is an application of difference equations.
Which of the above statement(s) is/are correct?
(A) (i) and (ii) only
(B) (iii) and (iv) only
(C) (i), (ii) and (iii) only
(D) (i), (ii) and (iv) only

191. A function that assigns a real number to each vector in a vector space is known as a:
(A) Functional.
(B) Linear transformation.
(C) Basis.
(D) Subspace.

192. A firm's total cost is TC = 50 + 10Q and its total revenue is TR = 20Q - Q^2. At what output level is profit maximized?
(A) Q = 10
(B) Q = 5
(C) Q = 2.5
(D) Q = 15

193. The universal set, in the context of a particular problem, is a set that:
(A) Contains no elements.
(B) Contains all objects or elements under consideration.
(C) Contains only one element.
(D) Is a subset of every other set.

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(A) has no solution.
(B) has a unique solution.
(C) might have an unbounded solution.
(D) has an infinite number of constraints.

174. The trace of a square matrix is the:
(A) Sum of the diagonal elements.
(B) Product of the diagonal elements.
(C) Determinant of the matrix.
(D) Number of non-zero rows.

175. Arrange the following steps for using differential calculus to find the minimum of a firm's average cost (AC) function in the correct order:
(i) Set the derivative d(AC)/dQ equal to zero and solve for Q.
(ii) Check that the second derivative $d^2(AC)/dQ^2$ is positive.
(iii) Find the total cost (TC) function.
(iv) Derive the average cost (AC) function by dividing TC by Q.
Choose the correct sequence:
(A) (iii), (iv), (i), (ii)
(B) (iii), (i), (iv), (ii)
(C) (iv), (iii), (i), (ii)
(D) (i), (ii), (iii), (iv)

176. What is the limit of the sequence a_n = 1/n as n approaches infinity?
(A) 0
(B) 1
(C) Infinity
(D) Does not exist

177. A first-order linear difference equation is 'homogeneous' if:
(A) The coefficient of y_{t-1} is one.
(B) The initial value y_0 is zero.
(C) The solution is stable.
(D) The constant term on the right-hand side is zero.

178. The inverse of a 2x2 matrix A = [[a, b], [c, d]] is given by:
(A) $\frac{1}{|A|} \cdot \begin{bmatrix} d & -b \\ -c & a \end{bmatrix}$
(B) $\frac{1}{|A|} \cdot \begin{bmatrix} a & c \\ b & d \end{bmatrix}$
(C) $|A| \cdot \begin{bmatrix} d & -b \\ -c & a \end{bmatrix}$
(D) $\frac{1}{|A|} \cdot \begin{bmatrix} -a & -b \\ -c & -d \end{bmatrix}$

179. If income elasticity of demand for a good is greater than 1, the good is a:
(A) Normal good.
(B) Inferior good.
(C) Luxury good.
(D) Giffen good.

180. Match the items in List I with the items in List II.
List I: (Calculus Concept)
P. $f'(x)$
Q. $f'(x) > 0$
R. $f(x)dx$
S. $f'(x) = 0$
List II: (Economic Interpretation)
1. Stationary point (potential optimum)
2. Marginal function (e.g., marginal cost from total cost)
3. Total function (e.g., total cost from marginal cost)
4. Increasing marginal returns or costs
Choose the correct option from those given below:
(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-2, S-4

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181. In an input-output model, the final demand represents:
(A) The use of goods and services as inputs for further production.
(B) The total production of each sector.
(C) The primary inputs like labor and capital.
(D) The demand for goods and services for consumption, investment, government spending, and exports.

182. A homogeneous differential equation is one that can be written in the form:
(A) $d\frac{y}{d}t + P(t)y = Q(t)$
(B) $d\frac{y}{d}x = F\left(\frac{y}{x}\right)$
(C) $d^2y/dt^2 + a\left(d\frac{y}{d}t\right) + by = 0$
(D) $d\frac{y}{d}t = c$

(A) A linear function.
(B) A Cobb-Douglas function.
(C) A quadratic function.
(D) A logarithmic function.

162. The solution to a system of linear equations Ax = B using Cramer's rule involves calculating:
(A) Several determinants.
(B) The inverse of matrix A.
(C) The transpose of matrix A.
(D) The rank of matrix A.

163. For a function to be differentiable at a point, it must first be:
(A) Monotonic at that point.
(B) Linear at that point.
(C) Continuous at that point.
(D) Defined over all real numbers.

164. The complementary function of a linear difference equation describes the:
(A) Equilibrium value of the variable.
(B) Speed of convergence to equilibrium.
(C) Initial value of the variable.
(D) Deviation from the equilibrium time path.

165. Consider the following statements about static optimization:
(i) It is concerned with finding the extremum of a function at a particular point in time.
(ii) The first-order condition (f'(x) = 0) is sufficient for a local maximum.
(iii) The Lagrange multiplier measures the change in the objective function for a unit change in the constraint.
(iv) The Hessian matrix is used to check second-order conditions for functions of multiple variables.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (iii) only
(B) (ii) and (iv) only
(C) (i), (iii) and (iv) only
(D) (i), (ii) and (iv) only

166. A surplus variable in linear programming has what coefficient in the objective function?
(A) A very large positive value (M).
(B) Zero.
(C) A very large negative value (-M).
(D) One.

167. A diagonal matrix is a square matrix where:
(A) All elements are one.
(B) All elements are zero.
(C) All elements on the main diagonal are zero.
(D) All elements off the main diagonal are zero.

168. If a firm's total revenue (TR) is maximized, its marginal revenue (MR) must be:
(A) Equal to one.
(B) Maximized.
(C) Equal to zero.
(D) Equal to marginal cost.

169. What is a singleton set?
(A) A set with no elements.
(B) A set with two elements.
(C) A set with a single element.
(D) A subset of another set.

170. Consider the following components for formulating a linear programming problem:
(i) A linear objective function to be optimized.
(ii) A set of linear constraints.
(iii) Non-negativity constraints on decision variables.
(iv) A non-linear objective function.
(v) At least one quadratic constraint.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (v) only
(B) (iv) and (v) only
(C) (i), (ii), and (iii) only
(D) (i) and (iii) only

171. The particular integral of the differential equation $d\frac{y}{d}t + ay = c$ is:
(A) $y_p = c$
(B) $y_p = A \cdot e^{-at}$
(C) $y_p = \frac{c}{a}$
(D) $y_p = c - a$

172. Young's Theorem in calculus states that for a function $z = f(x, y)$ with continuous second-order partial derivatives:
(A) $f_x y = f_y x$
(B) $f_\times = f_y y$
(C) $f_x = f_y$
(D) $f_\times \cdot f_y y = 0$

173. The feasible region for a linear programming problem is unbounded. This implies that the problem:

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194. Consider the following two statements regarding differential equations:
Statement I : The order of a differential equation is the order of the highest derivative it contains.
Statement II : The degree of a differential equation is the highest power of the highest order derivative in it.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

195. A consumer's utility function is U(x,y) = min(ax, by). Consider the following statements about the consumer's preferences:
(i) The goods x and y are perfect complements.
(ii) The indifference curves are L-shaped.
(iii) The marginal rate of substitution is constant.
(iv) The consumer will always consume the goods in a fixed ratio.
(v) The goods x and y are perfect substitutes.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iv) only
(B) (iii) and (v) only
(C) (i), (iii), and (iv) only
(D) (ii), (iv), and (v) only

196. An objective function in a linear programming problem can have:
(A) Multiple optimal solutions with different objective function values.
(B) Only one optimal solution.
(C) A non-linear shape.
(D) Multiple optimal solutions with the same objective function value.

197. The determinant of the matrix [[2, 1, 0], [1, 3, 1], [0, 1, 4]] is:
(A) 18
(B) 22
(C) 20
(D) 24

198. The sum of an infinite geometric series a + ar + ar^2 + ... is given by a/(1-r) provided that:
(A) |r| > 1
(B) |r| < 1
(C) r = 1
(D) r = -1

199. Euler's theorem for a homogeneous function f(x, y) of degree n states that:
(A) $x\left(\frac{f}{x}\right)+y\left(\frac{f}{y}\right)=f(x,y)$
(B) $\left(\frac{f}{x}\right)+\left(\frac{f}{y}\right)=n$
(C) $x\left(\frac{f}{x}\right)-y\left(\frac{f}{y}\right)=0$
(D) $x\left(\frac{f}{x}\right)+y\left(\frac{f}{y}\right)=n\cdot f(x,y)$

200. A point of inflection on a curve $y = f(x)$ is a point where the:
(A) Concavity of the curve changes.
(B) Slope changes sign.
(C) Function value is zero.
(D) Function is discontinuous.

201. Which of the following is NOT a requirement for a set of vectors to be considered a basis for a vector space V?
(A) The vectors must be linearly independent.
(B) The vectors must span the vector space V.
(C) Every vector in V can be expressed as a unique linear combination of the basis vectors.
(D) The vectors must be orthogonal to each other.

202. The equation for the time path of capital stock in the Solow growth model is an example of a:
(A) Second-order difference equation.
(B) First-order linear differential equation.
(C) Constrained optimization problem.
(D) Linear programming problem.

203. The solution of a linear programming problem lies at the corner of the feasible region because:
(A) The objective function is linear.
(B) The constraints are linear.
(C) The feasible region is convex and the objective function is linear.
(D) The decision variables are non-negative.

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204. The elements on the main diagonal of a skew-symmetric matrix are always:
(A) 1
(B) 0
(C) -1

140. Consider the following statements about the Simplex Method:
(i) It is an algebraic, iterative procedure for solving linear programming problems.
(ii) It begins at a corner point of the feasible region, usually the origin.
(iii) In each iteration, it moves to an adjacent corner point with an improved objective function value.
(iv) The method can only be used for minimization problems.
Which of the above statement(s) is/are correct?
(A) (i), (ii) and (iii) only
(B) (ii), (iii) and (iv) only
(C) (i), (iii) and (iv) only
(D) (i), (ii) and (iv) only

141. The intertemporal equilibrium of a market can be analyzed using:
(A) Static optimization.
(B) Matrix inversion.
(C) Difference or differential equations.
(D) Set theory.

142. A function $y = f(x)$ is convex if its second derivative is:
(A) $f'(x)0$
(B) $f'(x) = 0$
(C) $f(x) = 0$
(D) $f'(x)0$

143. If set A has 4 elements, how many subsets does its power set contain?
(A) 4
(B) 8
(C) 16
(D) 32

144. The system of equations given by $2x + 3y = 7$ and $4x + 6y = 10$ has:
(A) A unique solution.
(B) No solution.
(C) Infinite solutions.
(D) A trivial solution.

145. Consider the following applications of differential calculus in economics:
(i) Deriving the marginal utility function from the total utility function.
(ii) Finding the profit-maximizing level of output for a firm.
(iii) Calculating the point elasticity of demand.
(iv) Solving a system of market equilibrium equations using Cramer's Rule.
(v) Identifying the returns to scale of a production function.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (v) only
(B) (i), (ii), (iii), and (v) only
(C) (iii), (iv), and (v) only
(D) (i), (ii), and (iv) only

146. A saddle point in the context of a function of two variables is a point that is:
(A) A maximum in one direction and a minimum in another.
(B) A maximum in all directions.
(C) A minimum in all directions.
(D) Not a stationary point.

147. Consider the following two statements regarding optimization methods:
Statement I : The Lagrangian method transforms a constrained optimization problem into an unconstrained one.
Statement II : The first-order conditions for a constrained optimization problem are found by setting the partial derivatives of the objective function with respect to each variable equal to zero.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

148. The concept of 'continuity' of a function f(x) at a point 'a' graphically means:
(A) The function has a sharp corner at 'a'.
(B) The graph of the function has a break or jump at 'a'.
(C) The function is not defined at 'a'.
(D) The graph of the function can be drawn through 'a' without lifting the pen.

149. The solution of the differential equation dy/dt + ay = 0 is:
(A) $y(t) = A \cdot e^{at}$
(B) $y(t) = A \cdot e^{-at}$
(C) $y(t) = a + t$
(D) $y(t) = A + at$

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the marginal propensity to save.
(B) The warranted rate of growth and the natural rate of growth.
(C) The interest rate and the investment rate.
(D) The level of technology and the population growth rate.

215. Consider the following statements regarding the application of Lagrange multipliers:
(i) It is used for solving unconstrained optimization problems.
(ii) The first-order conditions involve partial derivatives of the Lagrangian with respect to the original variables and the multiplier.
(iii) The value of the multiplier (λ) has no economic interpretation.
(iv) The method requires the constraint to be an equality.
Which of the above statement(s) is/are correct?
(A) (i) and (iii) only
(B) (ii) and (iv) only
(C) (i), (ii), and (iii) only
(D) (ii), (iii), and (iv) only

216. The limit of $f(x) = \frac{x^2 - 4}{x - 2}$ as x approaches 2 is:
(A) 4
(B) 0
(C) 2
(D) Undefined

217. A matrix that is equal to its own transpose is called:
(A) An identity matrix.
(B) A skew-symmetric matrix.
(C) A symmetric matrix.
(D) An orthogonal matrix.

218. The second derivative of a total utility function with respect to the quantity of a good consumed represents:
(A) Total utility.
(B) The rate of change of marginal utility.
(C) Marginal utility.
(D) Average utility.

219. A solution to a system of difference equations is stable if, over time, the variables:
(A) Diverge from their equilibrium values.
(B) Oscillate with constant amplitude.
(C) Converge to their equilibrium values.
(D) Grow at a constant rate.

220. Consider the following statements about linear algebra concepts:
(i) A matrix is an array of numbers arranged in rows and columns.
(ii) A vector can be considered a matrix with only one row or one column.
(iii) A vector space must be a finite set of vectors.
(iv) The rank of a matrix is the maximum number of its linearly independent column vectors.
(v) Two matrices can be added only if they have the same dimensions.
Which of the above statement(s) is/are correct?
(A) (i), (ii), (iii) and (iv) only
(B) (i), (ii), (iv) and (v) only
(C) (ii), (iii), (iv) and (v) only
(D) (i), (iii), (iv) and (v) only

221. A phase diagram is a graphical tool often used to analyze the stability of:
(A) Static optimization problems.
(B) Linear programming solutions.
(C) Differential equations.
(D) Matrix operations.

222. The shadow price in the dual of a linear programming problem represents:
(A) The market price of a product.
(B) The cost of a decision variable.
(C) Total profit of the firm.
(D) The marginal value of an additional unit of a resource.

223. For a function f(x), if f' (c) = 0 and f''(c) = 0, the second derivative test is:
(A) Inconclusive.
(B) Conclusive, it is a maximum.
(C) Conclusive, it is a minimum.
(D) Conclusive, it is a saddle point.

224. De Morgan's Laws in set theory relate the operations of:
(A) Subsets and power sets.
(B) Cartesian products and relations.
(C) Union and intersection only.
(D) Union and intersection with complementation.

225. Arrange the following steps for solving a linear programming problem using the graphical method in correct chronological order:

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284. A positive second derivative at a critical point of a function f(x) indicates which of the following?
(A) A local minimum and that the function is convex.
(B) A local maximum and that the function is concave.
(C) An inflection point where curvature changes.
(D) A local maximum and that the function is convex.

285. The term static optimization implies that the analysis is concerned with finding an optimal outcome:
(A) over a long period of dynamic adjustment.
(B) for multiple economic agents simultaneously.
(C) at a single, specific point in time.
(D) that is stable and never changes.

Direction : Please read the following source carefully.

While unconstrained optimization is useful, most economic decisions are made subject to limitations, such as a limited budget or finite resources. This leads to the domain of constrained optimization. A central technique for solving such problems is the Lagrangian method. This approach converts a constrained optimization problem into an unconstrained one by constructing a new function, the Lagrangian, denoted by L. This function is formed by taking the original objective function and adding the constraint, which is rearranged to equal zero and multiplied by a new variable, λ, known as the Lagrange multiplier. For example, to maximize a utility function U(x, y) subject to a budget constraint $P_x x + P_y y = M$, the Lagrangian would be $L = U(x, y) + \lambda(M - P_x x - P_y y)$. The optimal solution is found by taking the partial derivatives of L with respect to each choice variable (x, y) and the multiplier (λ) and setting them all to zero. The Lagrange multiplier, λ, is not just a computational tool; it has a profound economic interpretation as the 'shadow price' of the constraint. It measures the marginal effect on the optimal value of the objective function resulting from a one-unit relaxation of the constraint. In consumer theory, it represents the marginal utility of an extra unit of income.

Based on the above source, attempt the following five questions.

286. What is the primary purpose of the Lagrangian method in economic analysis?
(A) To model dynamic adjustments over time.
(B) To find the determinant of a technology matrix.
(C) To analyze unconstrained profit maximization for a monopoly.
(D) To solve optimization problems that are subject to constraints.

287. In the context of consumer utility maximization, what is the economic interpretation of the Lagrange multiplier (λ)?
(A) The total utility derived from consumption.
(B) The price of the most expensive good.
(C) The marginal utility of income.
(D) The total budget available to the consumer.

288. How is the Lagrangian function (L) constructed?
(A) By multiplying the objective function by the constraint.
(B) By summing the objective function and the constraint multiplied by the Lagrange multiplier.
(C) By dividing the objective function by the Lagrange multiplier.
(D) By differentiating the objective function with respect to the constraint.

289. The term 'shadow price' as used in the passage refers to:
(A) the market price of a good in an illegal market.
(B) the initial value of the choice variables before optimization.
(C) the price level that leads to zero profit.
(D) the change in the objective function's optimal value from a slight relaxation of the constraint.

290. To find the optimal solution using the Lagrangian method, one must set the partial derivatives of the Lagrangian function with respect to which variables to zero?
(A) Both the choice variables and the Lagrange multiplier.
(B) Only the choice variables.
(C) Only the Lagrange multiplier.
(D) The parameters of the objective function.

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|a|<1.
Reason (R) : When |a|<1, the complementary function a^t approaches zero as t approaches infinity, causing the time path y_t to converge to the particular solution.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

236. The derivative of a function represents the:
(A) Instantaneous rate of change of the function.
(B) Area under the function's curve.
(C) Average value of the function.
(D) Maximum value of the function.

237. A vector space is closed under which operations?
(A) Vector multiplication and division.
(B) Vector differentiation and integration.
(C) Vector addition and scalar multiplication.
(D) Finding the determinant and inverse.

238. Consider the following two statements regarding constrained optimization:
Statement I : In a constrained optimization problem, a binding constraint is one that holds with equality at the optimal solution.
Statement II : A non-binding constraint has a Lagrange multiplier value of zero.
In the context of these two statements, which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

239. The number of constraints in the dual linear programming problem is equal to the number of:
(A) Decision variables in the primal problem.
(B) Constraints in the primal problem.
(C) Slack variables in the primal problem.
(D) Corner points in the primal feasible region.

240. Consider the following statements about the properties of determinants:
(i) If a matrix has a row or column of zeros, its determinant is zero.
(ii) Interchanging two rows or columns of a matrix changes the sign of its determinant.
(iii) The determinant of a matrix is equal to the determinant of its transpose, i.e., |A| = |A'|.
(iv) Multiplying a single row of a matrix by a scalar 'k' multiplies the determinant by k^2.
Which of the above statement(s) is/are correct?
(A) (i), (ii), and (iii) only
(B) (i), (ii), and (iv) only
(C) (i), (iii), and (iv) only
(D) (ii), (iii), and (iv) only

241. A separating hyperplane theorem is a concept related to:
(A) Difference equations.
(B) Differential calculus.
(C) Convex sets.
(D) Matrix determinants.

242. The knife-edge problem in the Harrod-Domar growth model refers to the:
(A) Instability of the equilibrium growth path.
(B) Difficulty in calculating the warranted rate of growth.
(C) Assumption of a fixed capital-output ratio.
(D) Exclusion of technological progress.

243. The total cost function is $TC(Q) = 10Q^2 + 50Q + 500$. The fixed cost is:
(A) 10
(B) 50
(C) 500
(D) 60

244. If the first-order partial derivatives of a function z = f(x, y) are both zero at a point (a, b), that point is called a:
(A) Global maximum.
(B) Point of inflection.
(C) Boundary point.
(D) Stationary point.

245. Consider the following statements regarding the application of difference and differential equations in economics:
(i) They are used to model the dynamic behavior of economic variables over time.
(ii) A first-order equation involves only one time lag or a first derivative.
(iii) The stability of an equilibrium is a key question addressed by these models.
(iv) The Cobweb model for agricultural prices is

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(i) Identify the feasible region.
(ii) Plot the constraint lines on a graph.
(iii) Formulate the objective function and constraints.
(iv) Find the coordinates of the corner points of the feasible region.
(v) Evaluate the objective function at each corner point to find the optimum value.
Choose the correct sequence:
(A) (iii), (i), (ii), (iv), (v)
(B) (iii), (ii), (i), (iv), (v)
(C) (i), (iii), (ii), (iv), (v)
(D) (iii), (ii), (iv), i, (v)

226. The equation $Y_t = aY_{\{t-1\}}$ is a:
(A) First-order homogeneous difference equation.
(B) First-order non-homogeneous difference equation.
(C) First-order homogeneous differential equation.
(D) Second-order homogeneous difference equation.

227. The Hessian matrix is a square matrix of:
(A) First-order partial derivatives.
(B) Function values.
(C) Second-order partial derivatives.
(D) Lagrange multipliers.

228. In the Leontief model, $x = Ax + D$, the term Ax represents:
(A) Final demand.
(B) Total output.
(C) Primary input.
(D) Intermediate demand.

229. If a consumer's marginal utility of money is constant, the demand curve for a good derived from utility maximization will be:
(A) Perfectly elastic.
(B) Perfectly inelastic.
(C) Identical to the marginal utility curve for that good.
(D) Upward sloping.

230. Match the items in List I with the items in List II.
List I: (Matrix A Property)
P. A is non-singular ($|A| \neq 0$)
Q. A is singular ($|A| = 0$) and (Adj A)B = 0
R. A is singular ($|A| = 0$) and (Adj A)B $\neq 0$
S. A is an identity matrix
List II: (Implication for system AX = B)
1. System has no solution (inconsistent).
2. System has a unique solution.
3. System has infinite solutions.
4. Solution is X = B.
Choose the correct option from those given below:
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-3, S-4
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-2, R-1, S-4

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231. The solution to a difference equation is explosive (unstable) when the absolute value of the characteristic root is:
(A) Less than 1.
(B) Equal to 1.
(C) Greater than 1.
(D) Equal to 0.

232. In consumer theory, the tangency point between an indifference curve and the budget line represents:
(A) A point of consumer equilibrium.
(B) A point of minimum utility.
(C) A point where the consumer is spending beyond their income.
(D) A point where income is not fully spent.

233. Which of the following is NOT an assumption of the basic Leontief Input-Output model?
(A) Each industry produces only one homogeneous good.
(B) There are increasing returns to scale in production.
(C) There is no joint production.
(D) The production technology is fixed.

234. If A and B are independent events, then P(A ∩ B) is:
(A) $P(A) \cdot P(B)$
(B) $P(A) + P(B)$
(C) $P(A|B)$
(D) 0

235. Read the following assertion and reason carefully and choose the correct option.
Assertion (A) : The equilibrium of a first-order difference equation $y_t = ay_{\{t-1\}} + c$ is stable if

(C) Complement
(D) Subset

253. In the context of a utility function, what does the domain represent?
(A) The numerical value of satisfaction.
(B) The level of utility achieved.
(C) The set of all possible consumption bundles.
(D) The set of all consumers in the market.

254. The passage suggests that a utility function maps a consumption bundle to a numerical value. What can be inferred about this relationship?
(A) Every level of satisfaction must correspond to a unique consumption bundle.
(B) A single consumption bundle can result in multiple levels of satisfaction.
(C) The domain and range of a utility function are always identical.
(D) The function ensures that each specific consumption bundle has one and only one associated utility level.

255. If a firm's production function is described, where the inputs are combinations of labor and capital, what would the range of this function represent?
(A) The set of all possible combinations of labor and capital.
(B) The cost of hiring labor and capital.
(C) The specific levels of output produced.
(D) The market price of the final good.

Direction : Please read the following source carefully.

The concept of continuity is a critical assumption in many microeconomic and macroeconomic models, primarily because it enables the use of differential calculus for optimization. A continuous function is one whose graph is an unbroken curve, meaning that small changes in the input result in small, predictable changes in the output, without any sudden jumps or gaps. This assumption is frequently applied to utility functions and production functions, allowing for the analysis of marginal changes. Beyond continuity, sequences and series are fundamental tools for dynamic analysis. A sequence is an ordered list of numbers, such as the quarterly GDP figures for a country over five years or the daily closing price of a stock. A series, by contrast, is the sum of the terms of a sequence. A prominent application of series in economics is the calculation of the present value of a future income stream. By using a geometric series, an analyst can sum the discounted values of all future payments to find their equivalent value today. The convergence or divergence of a sequence or series is of great importance; a convergent sequence of prices, for example, implies that the price is approaching a stable long-run equilibrium, whereas a divergent sequence suggests instability.

Based on the above source, attempt the following five questions.

256. Why is the assumption of continuity considered crucial for many economic functions?
(A) It ensures that all economic variables are positive.
(B) It allows for the application of differential calculus for marginal analysis.
(C) It guarantees that markets will always reach a stable equilibrium.
(D) It simplifies the calculation of geometric series for present value.

257. Which of the following best illustrates an economic sequence as described in the passage?
(A) The total value of all assets held by a household at a single point in time.
(B) The sum of all government tax revenues in a given fiscal year.
(C) The total cost of producing a specific quantity of a good.
(D) A firm's monthly profit figures recorded over the course of a year.

258. An economist is calculating the total current worth of a bond that pays a fixed coupon annually for ten years. According to the passage, which mathematical tool would be most directly applicable?
(A) A series to sum the discounted future coupon payments.
(B) A sequence of interest rates.
(C) A test for the continuity of the payment function.
(D) A divergent sequence to model price instability.

259. What is the primary distinction between a sequence and a series as presented in the source?

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a classic application of difference equations.
(v) The Solow growth model is typically formulated using a second-order differential equation.

Which of the above statement(s) is/are correct?
(A) (i), (ii), (iii) and (iv) only
(B) (i), (ii), (iv) and (v) only
(C) (ii), (iii), (iv) and (v) only
(D) (i), (iii), (iv) and (v) only

246. The dual of a primal LP problem that seeks to maximize an objective function subject to 'less than or equal to' constraints will have:
(A) A maximization objective function and 'less than or equal to' constraints.
(B) A minimization objective function and 'greater than or equal to' constraints.
(C) A minimization objective function and 'less than or equal to' constraints.
(D) A maximization objective function and 'greater than or equal to' constraints.

247. A function y = f(x) is concave if:
(A) $f(x) > 0$ and $f'(x) > 0$
(B) $f'(x)0$
(C) $f(x) < 0$ and $f'(x) > 0$
(D) $f'(x)0$

248. The determinant of a singular matrix is:
(A) 1
(B) 0
(C) -1
(D) Infinite

249. In a market model, a stable equilibrium is one where, if the market is displaced from equilibrium, it:
(A) Moves further away from the equilibrium position.
(B) Oscillates around the equilibrium position indefinitely.
(C) Returns to the equilibrium position.
(D) Moves to a new equilibrium position.

250. The value of the Lagrange multiplier (λ) in a utility maximization problem is often called the:
(A) Marginal rate of substitution.
(B) Marginal utility of income.
(C) Price ratio.
(D) Elasticity of utility.

Direction : Please read the following source carefully.

In mathematical economics, the foundational concepts of sets and functions are paramount for building rigorous models of economic behavior. A set is understood as a well-defined collection of distinct elements, which in economics can represent a variety of collections such as a set of available goods in a market, a set of possible production technologies, or a set of consumers. Operations on these sets, including union, intersection, and complement, allow for precise descriptions of combined or exclusive choices and possibilities. A function, in turn, establishes a formal relationship or mapping between two sets: a domain (the set of all possible inputs) and a codomain (the set of potential outputs). For every element in the domain, a function assigns exactly one element in the codomain; the set of these assigned elements is called the range. For instance, a production function maps a set of input combinations (domain) to a specific level of output (range). Similarly, a utility function maps a consumption bundle from a set of possible bundles to a numerical value representing the level of satisfaction, thereby structuring a consumer's preferences in a mathematically tractable way. The nature of the function, be it linear, quadratic, or exponential, determines the specific character of the economic relationship being modeled.

Based on the above source, attempt the following five questions.

251. According to the passage, what is the primary role of a function in mathematical economics?
(A) To list all available goods in a market.
(B) To establish a formal mapping between a set of inputs and a set of outputs.
(C) To calculate the union and intersection of different economic choices.
(D) To represent a collection of distinct production technologies.

252. A consumer can choose from a set of fruit {apple, banana, orange} and a set of vegetables {carrot, spinach}. If an economist wants to represent the set of all possible choices including both fruits and vegetables, which set operation would be most appropriate?
(A) Union
(B) Intersection

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Direction : Please read the following source carefully.

While the first derivative of a function provides information about its rate of change and slope, the second derivative offers deeper insights into the function's curvature, which is critical for optimization applications in economics. The second derivative is simply the derivative of the first derivative. Its sign is used as a sufficient condition to distinguish between a maximum and a minimum at a critical point where the first derivative is zero. For a function to be at a local maximum, the second derivative must be negative, indicating that the function is concave (curving downwards). This is the mathematical condition for profit maximization, where the marginal profit is decreasing and becomes zero at the peak. Conversely, for a function to be at a local minimum, the second derivative must be positive, indicating the function is convex (curving upwards). This condition applies to cost minimization problems. The concept of the second derivative is also central to the principle of diminishing marginal utility. If the total utility function is U(x), the first derivative U'(x) is the marginal utility. The second derivative, U''(x), represents the rate of change of marginal utility. A negative second derivative (U''(x) < 0) implies that marginal utility diminishes as consumption (x) increases, a standard assumption in consumer theory.

Based on the above source, attempt the following five questions.

266. In a profit maximization problem, what condition must the second derivative of the profit function satisfy at the optimal output level?
(A) It must be positive.
(B) It must be negative.
(C) It must be equal to zero.
(D) It must be equal to the price.

267. The passage suggests that a positive second derivative of a cost function at a certain output level indicates that the function is:
(A) at a local maximum.
(B) at a local minimum.
(C) concave and curving downwards.
(D) linear and has no curvature.

268. What does the term U''(x) < 0 signify in the context of consumer theory, as described in the text?
(A) The marginal utility derived from the good is diminishing.
(B) Total utility is negative.
(C) Consumers prefer less of the good to more.
(D) Marginal utility is increasing at an increasing rate.

269. The second derivative of a function provides direct information about which of the following characteristics?
(A) The function's y-intercept.
(B) The function's domain.
(C) The function's curvature.
(D) The function's average value.

270. A firm aims to minimize its average cost function AC(q). After finding a quantity q* where the first derivative is zero, what must be true about the second derivative at q* for it to be a point of minimum cost?
(A) The second derivative must be less than zero.
(B) The second derivative must also be zero.
(C) The second derivative must be equal to marginal cost.
(D) The second derivative must be greater than zero.

Direction : Please read the following source carefully.

Linear algebra provides a powerful framework for handling systems of linear equations, which are ubiquitous in economic modeling. A central element of linear algebra is the matrix, a rectangular array of numbers arranged in rows and columns. Matrices are used to represent and manipulate large sets of data and relationships in a compact and organized manner. Basic matrix operations include addition, subtraction, and scalar multiplication, which follow intuitive element-wise rules. A more complex but vital operation is matrix multiplication, which is used to represent transformations and solve systems of equations. For example, a system of linear equations describing market equilibrium can be concisely written in matrix form as $Ax = b$, where A is a matrix of coefficients, x is a vector of unknown variables (like prices or quantities),

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and b is a vector of constants. The solution to such a system often requires finding the inverse of the matrix A, denoted as A^{-1}. The inverse matrix exists only for square matrices with a non-zero determinant and has the property that $AA^{-1} = A^{-1}A = I$, where I is the identity matrix—a special matrix with ones on the main diagonal and zeros elsewhere. This allows for solving the system as $x = A^{-1}b$, making matrix inversion a key technique in comparative static analysis.

Based on the above source, attempt the following five questions.

271. In the matrix equation Ax = b, representing a system of linear equations, what does the matrix A typically represent?
(A) The vector of unknown variables.
(B) The vector of constant terms.
(C) The matrix of coefficients.
(D) The inverse of the solution matrix.

272. According to the passage, what is a necessary condition for a matrix to have an inverse?
(A) It must be an identity matrix.
(B) It must be a square matrix with a non-zero determinant.
(C) All its elements must be positive.
(D) It must be a square matrix with a zero determinant.

273. What is the defining characteristic of an identity matrix (I)?
(A) It is a matrix where all elements are one.
(B) It is the result of multiplying any matrix by its transpose.
(C) It is a matrix where all elements are zero.
(D) It has ones on the main diagonal and zeros elsewhere.

274. If an economist solves a system of market equilibrium equations using the formula $x = A^{-1}b$, what mathematical operation has been centrally used?
(A) Matrix inversion.
(B) Scalar multiplication.
(C) Matrix differentiation.
(D) Finding the matrix determinant.

275. Which of the following statements about matrix multiplication is implied by the passage?
(A) It is an element-wise operation similar to matrix addition.
(B) It is only possible between a matrix and its inverse.
(C) It is a complex operation used for solving systems of equations.
(D) It is commutative, meaning AB is always equal to BA.

Direction : Please read the following source carefully.

Building upon the fundamentals of matrix algebra, the concept of a vector space is crucial for understanding multi-dimensional economic systems. A vector can be seen as a special matrix with a single row or column, representing a point in space, such as a consumption bundle or a set of prices. A vector space provides the formal structure for operations on these vectors. One of the most significant applications of this framework in economics is the Leontief Input-Output model, which analyzes the interdependence of different sectors or industries within an economy. This model uses matrix algebra to determine the total output levels required from all industries to satisfy both inter-industry demands and a final external demand. The core of the model is the equation $X = AX + D$, where X is the total output vector (listing the output of each industry), D is the final demand vector (representing consumption, investment, government spending, and exports), and A is the technology matrix. Each element a_{ij} in the technology matrix A represents the amount of industry i's output needed as an input to produce one unit of industry j's output. To find the required production level X for a given demand D, the equation is rearranged and solved as $X = (I - A)^{-1}D$, where $(I - A)^{-1}$ is known as the Leontief inverse matrix.

Based on the above source, attempt the following five questions.

276. In the Leontief Input-Output model equation x = Ax + D, what does the vector D represent?
(A) The final demand for goods and services.
(B) The total output of all industries.
(C) The matrix of technological coefficients.
(D) The amount of inter-industry consumption.

277. What is the economic meaning of a coefficient a_{ij} in the technology matrix A of an Input-Output model?

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(A) The total output of industry j required by industry i.
(B) The final demand for the output of industry i from industry j.
(C) The price of one unit of input from industry i used by industry j.
(D) The amount of input from industry i needed to produce one unit of output in industry j.

278. To determine the total output vector x required to meet a specific final demand D, one must calculate which of the following?
(A) The inverse of the technology matrix, A^{-1}.
(B) The Leontief inverse matrix, $(I - A)^{-1}$.
(C) The sum of the identity matrix and the technology matrix, $(I + A)$.
(D) The product of the technology matrix and the demand vector, AD.

279. The passage describes a vector as a representation of what in economic terms?
(A) The technology used by a single firm.
(B) The rate of change between two variables.
(C) A point in space, such as a consumption bundle.
(D) The interdependence between economic sectors.

280. The Input-Output model primarily helps economists to analyze which aspect of an economy?
(A) The long-run economic growth rate.
(B) The behavior of individual consumer choices.
(C) The determination of the general price level.
(D) The interdependencies among different industrial sectors.

Direction : Please read the following source carefully.

Static optimization is a cornerstone of economic analysis, focusing on the problem of finding the best possible outcome under a given set of circumstances at a single point in time. It addresses how economic agents, like firms or consumers, make optimal choices. In its simplest form, unconstrained optimization, an agent seeks to maximize or minimize an objective function without any limitations on the choice variables. The process involves using differential calculus. The first-order necessary condition for an optimum requires finding the critical points where the first derivative of the objective function is equal to zero. These points are potential candidates for a maximum or a minimum. To determine the nature of the critical point, the second-order sufficient condition is applied. For an objective function f(x) to have a local maximum at a critical point x, the second derivative f''(x*) must be negative. This indicates the function is concave at that point. Conversely, for a local minimum, the second derivative f''(x*) must be positive, indicating convexity. A classic application is a monopolistic firm choosing its output level (Q) to maximize its profit function, $\pi(Q) = R(Q) - C(Q)$, where R is revenue and C is cost. The firm finds Q where $d\pi/dQ = 0$ and $d^2\pi/dQ^2 < 0$.*

Based on the above source, attempt the following five questions.

281. What is the first-order necessary condition for finding an optimal point in an unconstrained optimization problem?
(A) The first derivative of the objective function must be equal to zero.
(B) The second derivative of the objective function must be negative.
(C) The objective function must be equal to the constraint.
(D) The second derivative of the objective function must be positive.

282. A firm is trying to maximize its profit. After finding an output level where marginal revenue equals marginal cost ($d\pi/dQ = 0$), what second-order condition must be met to confirm this is a profit maximum?
(A) The second derivative of the profit function must be positive.
(B) The second derivative of the profit function must be negative.
(C) The second derivative of the profit function must be zero.
(D) The profit function must be linear.

283. According to the passage, the problem of a firm seeking to minimize its cost function is an example of:
(A) dynamic analysis.
(B) unconstrained optimization.
(C) constrained optimization.
(D) input-output analysis.

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(A) A sequence deals with discrete time, while a series deals with continuous time.
(B) A sequence always converges, while a series can diverge.
(C) A sequence is a list of numbers, whereas a series is the summation of that list.
(D) A sequence is used for present value, while a series is used for GDP figures.

260. If the price of a commodity, tracked over successive periods, forms a convergent sequence, what does this imply from an economic standpoint?
(A) The price is moving towards a stable long-run level.
(B) The commodity's supply is perfectly inelastic.
(C) The price is fluctuating randomly without any pattern.
(D) The demand for the commodity is increasing exponentially.

Direction : Please read the following source carefully.

Differential calculus is fundamentally the mathematical study of change, and its core concept, the derivative, provides a precise measure of the instantaneous rate of change of a function. In the landscape of mathematical economics, the derivative is the indispensable tool for conducting marginal analysis. When an economic function, such as a total cost function C(q), is differentiated with respect to the quantity of output (q), the resulting derivative, dC/dq, is the marginal cost. This represents the additional cost incurred from producing one more infinitesimal unit of output. Similarly, differentiating the total revenue function R(q) yields marginal revenue (MR), and differentiating the total utility function U(x) yields marginal utility (MU). The sign of the first derivative is also highly informative; a positive first derivative indicates that the function is increasing, while a negative derivative indicates it is decreasing. For example, a negative derivative of a demand function with respect to price confirms the law of demand, where quantity demanded falls as price rises. The value of the derivative at a specific point gives the slope of the tangent line to the function's curve at that point, providing a local linear approximation of the function's behavior.

Based on the above source, attempt the following five questions.

261. According to the passage, what does the derivative of a total revenue function with respect to quantity represent in economic terms?
(A) Average revenue.
(B) Total profit.
(C) Price elasticity of demand.
(D) Marginal revenue.

262. A positive first derivative of a production function, where output is a function of labor input, would signify that:
(A) the firm is experiencing diminishing returns to labor.
(B) adding more labor leads to an increase in total output.
(C) the firm has reached its maximum possible output.
(D) adding more labor leads to a decrease in total output.

263. The passage explains that the derivative is the cornerstone of which type of economic analysis?
(A) General equilibrium analysis.
(B) Input-output analysis.
(C) Marginal analysis.
(D) Time series analysis.

264. If the demand function for a good is given by Q(p), and its derivative dQ/dp is found to be negative, what economic principle does this finding support?
(A) The law of supply.
(B) The principle of diminishing marginal utility.
(C) The concept of consumer surplus.
(D) The law of demand.

265. What is the geometric interpretation of the derivative of a function at a particular point, as mentioned in the source?
(A) The slope of the tangent line to the function's curve at that point.
(B) The area under the function's curve up to that point.
(C) The total change in the function over its entire domain.
(D) The point where the function intersects the vertical axis.

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carefully.

Linear Programming (LP) is a powerful mathematical method used for determining the best possible outcome in a model whose requirements are represented by linear relationships. It is a specific case of optimization where the objective function to be maximized or minimized is linear, and all constraints are expressed as linear equalities or inequalities. A standard LP problem has three key parts: the decision variables, which are the quantities to be determined; the linear objective function, which represents the goal (e.g., maximizing profit or minimizing cost); and a set of linear constraints, which represent limitations on resources or other requirements. For instance, a factory might use LP to decide how many units of different products to manufacture to maximize profit, given constraints on labor hours, machine time, and raw materials. A fundamental concept in LP is duality. Every LP problem, referred to as the primal problem, has an associated dual problem. The dual problem offers significant economic insights; its solution yields the shadow prices of the resources, which represent the marginal value of each constrained resource. The fundamental theorem of duality states that if an optimal solution exists for the primal problem, then one also exists for the dual problem, and their optimal objective function values are identical.

Based on the above source, attempt the following five questions.

291. Which of the following is a defining characteristic of a Linear Programming problem?
(A) The objective function and constraints are non-linear.
(B) The objective function is quadratic, and constraints are linear.
(C) The objective function and constraints are both linear.
(D) There is a linear objective function but no constraints.

292. In the context of a firm using Linear Programming for resource allocation, what does the solution to the dual problem typically provide?
(A) The shadow prices or marginal values of the constrained resources.
(B) The optimal quantity of products to manufacture.
(C) The total profit earned by the firm.
(D) The market price of the final products.

293. According to the fundamental theorem of duality, what is the relationship between the optimal values of the primal and dual problems?
(A) The dual's value is always greater than the primal's.
(B) The primal's value is the reciprocal of the dual's.
(C) There is no systematic relationship between their values.
(D) Their optimal values are equal.

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294. Which of the following is NOT a component of a Linear Programming problem as described in the passage?
(A) Decision variables.
(B) Non-linear constraints.
(C) Linear objective function.
(D) A set of linear constraints.

295. A factory wants to determine the production levels of two products to maximize its profit, subject to limits on available labor hours and raw materials. This problem is a classic application of which mathematical technique?
(A) Differential calculus.
(B) Input-Output analysis.
(C) Linear Programming.
(D) Sequence and series analysis.

Direction : Please read the following source carefully.

Economic analysis is not limited to static problems; understanding how economies evolve over time requires tools for dynamic analysis. Difference and differential equations are the primary mathematical instruments for this purpose. The choice between them depends on the treatment of time. Differential equations model economic relationships in continuous time, where variables can change at any instant. A key example is the Solow growth model, where a first-order differential equation describes the evolution of the capital stock, with its rate of change depending on the continuous flows of investment and depreciation. The solution to this equation provides the time path of capital accumulation. On the other hand, difference equations are used

responsiveness of demand, which indicates a relatively inelastic consumer behavior for the product being analyzed.

9. (C) Matrix multiplication is always commutative, i.e., AB = BA.
In matrix algebra, the order of multiplication is critical because the operation is generally non-commutative. While addition and scalar multiplication follow commutative laws, the product of two matrices depends on the alignment of rows and columns. This means that changing the sequence of matrices in a product usually results in a different outcome. Recognizing this property is vital for correctly manipulating linear systems and performing advanced structural economic modeling.

10. (A) Both A and R are true and R is the correct explanation of A.
The Lagrange multiplier method is a powerful tool for finding the optimal values of a function subject to specific equality constraints. The multiplier itself provides significant economic insight, as it measures the rate at which the objective function value changes when the constraint is relaxed. This interpretation as a shadow price makes it the perfect explanation for how optimization problems are solved and analyzed in various economic contexts.

11. (D) The Leontief inverse matrix.
In the Leontief Input-Output model, the identity matrix minus the technology matrix represents the net output after accounting for intermediate consumption. The inverse of this specific matrix, often called the Leontief inverse, shows the total production required from each industry to satisfy one unit of final demand. This matrix is essential for understanding the interdependencies between different sectors within a complex modern economic system and for planning.

12. (B) $y_t + ay_{\{t-1\}} = c$
Difference equations are used to model variables that change over discrete time intervals. A first-order difference equation relates the current value of a variable to its value in the immediately preceding period. This mathematical structure is commonly used in economics to represent dynamic processes such as the evolution of national income or price adjustments in market models. Identifying the correct form is the first step in solution.

13. (C) $f'(x)0$ for all x in its domain.
A function is classified as monotonically increasing if its value never decreases as the input increases. In calculus, this condition is satisfied when the first derivative is non-negative across the entire domain. This indicates that the slope of the function is either positive or zero, but never negative. Such functions are common in economics for modeling production or total cost, where more input generally leads to more output.

14. (D) Finding the first derivative of the TC function.
The marginal cost represents the additional cost incurred from producing one extra unit of output. Mathematically, it is found by taking the first derivative of the total cost function with respect to quantity. This derivative measures the slope of the total cost curve at any given point. It is a fundamental concept in microeconomic theory, as firms use marginal cost to determine the profit-maximizing level of production.

15. (B) (i) and (iv) only
Set theory includes several fundamental principles regarding the relationships between collections of objects. One such rule is that the empty set is considered a subset of every possible set. Additionally, the union of any set with the empty set remains unchanged, returning the original set. Other statements regarding power set size and set complements often involve specific formulas or different results. Mastering these basic properties is essential for reasoning.

16. (B) The matrix is singular.
A square matrix with a determinant equal to zero is known as a singular matrix. This property indicates that the rows or columns are linearly dependent, meaning the matrix does not have a unique inverse. In the context of linear systems, a singular coefficient matrix implies that the system does not have a unique solution. Identifying singular matrices is a crucial step in solving simultaneous equations and performing various transformations.

17. (B) Objective function.

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ANSWERS

1. (B) The set of all elements that are in either A or B, or in both.
   The union of two sets consists of all elements that belong to either set or to both simultaneously. Mathematically, this operation combines the members of both groups without duplicating shared entries. It represents the total collection of distinct items found within the combined boundaries of the specified sets. This fundamental concept in set theory helps in defining logical relationships and calculating probabilities in various quantitative and statistical analyses.

2. (A) The function must be differentiable at c.
   A function is continuous at a specific point if its limit exists, the function is defined at that point, and the limit equals the function's value. While differentiability implies continuity, the reverse is not true. Many continuous functions exist that are not differentiable at certain points, such as those with sharp corners or cusps. Therefore, being differentiable is a stronger condition and is not strictly required for continuity.

3. (C) Statement I is true, but Statement II is false.
   Mathematical functions are defined as rules assigning each element from an input set exactly one element from an output set. While the first statement correctly describes this relationship, the second statement misidentifies the set of all possible inputs. In mathematical terminology, the collection of input values is known as the domain, whereas the set of resulting output values is referred to as the range of the function.

4. (D) The marginal utility of good x.
   The partial derivative of a utility function with respect to one specific good measures the change in total utility resulting from a small change in the consumption of that good, holding all other variables constant. This specific rate of change is defined as the marginal utility. It provides crucial insights into consumer preferences and is a fundamental component in deriving demand curves and analyzing consumer equilibrium in microeconomics.

5. (A) P-4, Q-3, R-2, S-1
   Set notation provides a concise language for expressing relationships between collections of objects. The symbol for union identifies elements in either set, while the intersection symbol identifies common elements. The apostrophe signifies the complement, containing everything outside a specific set. Finally, the subset symbol indicates that every element of one set is contained within another. Correct identification of these symbols is essential for logical reasoning and operations.

6. (B) An arithmetic sequence.
   An arithmetic sequence is characterized by a constant difference between consecutive terms. This specific property implies that each term is generated by adding a fixed value to the preceding one. Such sequences are fundamental in modeling linear growth patterns in economics, such as simple interest calculations or constant production increases over time. Understanding these patterns is essential for analyzing trends and making predictions based on regularly occurring numerical intervals.

7. (D) $20x^3 + 6x$
   Differentiating a polynomial function involves applying the power rule to each individual term. For the given expression, multiplying the coefficient by the exponent and reducing the power by one yields the derivative. Constant terms disappear during this process because their rate of change is zero. The resulting function represents the instantaneous rate of change of the original equation, which is useful for finding slopes and optimizing various economic functions.

8. (A) -0.5
   Point price elasticity of demand is calculated using the derivative of quantity with respect to price multiplied by the ratio of price to quantity. In this scenario, a price increase from ten to twelve results in a decrease in quantity from five to four. Applying the derivative-based logic for small changes helps determine the

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for modeling in discrete time, where variables change at distinct intervals (e.g., daily, quarterly, or yearly). The Cobweb model of agricultural markets is a classic application, using a first-order difference equation to explain how price and quantity adjust from one period to the next based on production lags. In both types of models, a crucial step after finding the solution is to analyze its stability. Stability analysis determines whether the economic variable in question will converge to a long-run steady-state equilibrium or diverge, potentially leading to explosive fluctuations or collapse. These tools are thus essential for studying business cycles, economic growth, and market adjustment processes.

Based on the above source, attempt the following five questions.

296. According to the passage, when is it more appropriate to use a difference equation instead of a differential equation?
(A) When analyzing economic variables that change continuously.
(B) When the economic model involves unconstrained optimization.
(C) When dealing with inter-industry dependencies.
(D) When modeling economic relationships in discrete time intervals.

297. The Solow growth model is cited as an application of which mathematical tool to describe the evolution of capital stock?
(A) A first-order differential equation.
(B) A system of linear equations.
(C) A first-order difference equation.
(D) A Lagrange multiplier.

298. What is the primary purpose of conducting stability analysis on the solution of a difference or differential equation in an economic model?
(A) To calculate the initial value of the economic variable.
(B) To determine if the variable will converge to a steady-state equilibrium.
(C) To find the maximum value the variable can achieve.
(D) To ensure the model's equations are linear.

299. The Cobweb model, which explains price adjustments in agricultural markets with production lags, is a classic example of a model using:
(A) a differential equation.
(B) a difference equation.
(C) an input-output matrix.
(D) a static optimization problem.

300. What fundamental aspect of the economy do difference and differential equations allow economists to study?
(A) The behavior and evolution of economic variables over time.
(B) The distribution of income at a single point in time.
(C) The static efficiency of resource allocation.
(D) The optimal choice of a consumer with a fixed budget.

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Linear programming involves the optimization of a specific mathematical expression known as the objective function. This function represents the goal of the problem, such as maximizing profit or minimizing total cost, and is expressed as a linear combination of decision variables. It is subject to various constraints that define the feasible region. Finding the optimal solution requires identifying the point within that region that yields the best possible value.

18. (C) Statement I is true, but Statement II is false.
Differential equations are used to model variables that change continuously over time. A first-order linear differential equation expresses the relationship between a function and its first derivative. While this is a common tool for growth models, the Harrod-Domar model specifically utilizes first-order equations to analyze equilibrium growth paths. Understanding the order and linearity of these equations is essential for correctly applying them to various dynamic economic and physical systems.

19. (C) $|r| < 1$
The convergence of an infinite geometric series depends entirely on the absolute value of its common ratio. If the ratio is strictly less than one, the terms of the series decrease rapidly enough that their sum approaches a finite limit. However, if the ratio is one or greater, the series diverges as the terms do not diminish. This principle is vital for calculating present values and analyzing long-term growth models.

20. (B) (i), (ii), (iii) and (iv) only
A vector space is defined by its closure under addition and scalar multiplication. Standard matrices and Euclidean spaces are common examples. Subspaces must necessarily include the zero vector to satisfy the identity property. The dimension of any such space is fixed by the number of vectors required to form a basis. While some spaces are infinite, many used in linear algebra are finite-dimensional to facilitate calculations and structural analysis.

21. (C) $f_x \cdot f_y y - (f_x y)^2 < 0$ at (a, b).
In the analysis of functions with two variables, a saddle point represents a stationary point that is neither a local maximum nor a local minimum. It is identified when the second-order partial derivatives satisfy a specific condition where the determinant of the Hessian matrix is negative. This indicates that the function increases in one direction while decreasing in another. Locating such points is crucial for understanding the topography of complex surfaces.

22. (B) The Leontief Input-Output Model.
The Hawkins-Simon conditions are specifically designed to ensure that a Leontief Input-Output model is economically viable. These conditions require the technology matrix to be structured such that the industry can produce enough surplus to meet final demand after satisfying its own intermediate needs. If these conditions are not met, the model would imply negative production levels, which are impossible in reality. This framework is essential for industrial planning.

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23. (D) Solving a system of linear equations using Cramer's Rule.
Differential calculus is a powerful tool used in economics for optimization and marginal analysis. It allows for the calculation of marginal revenue from total revenue and helps firms find profit-maximizing output levels by setting derivatives to zero. While it is also used for determining various elasticities, solving systems of linear equations through Cramer's Rule is a technique belonging to linear algebra. Each of these methods provides unique insights.

24. (A) Applying the Lagrange multiplier method.
Optimization problems in economics often involve maximizing or minimizing a function subject to specific constraints. For a firm maximizing production output within a budget, the Lagrange multiplier method is the most appropriate mathematical tool. This technique incorporates the constraint directly into a new function, allowing the use of calculus to find the optimal levels of inputs. It provides a systematic way to solve complex decision-making problems involving variables.

25. (B) (iii), (i), (iv), (v), (ii)
Solving constrained optimization problems involves a specific sequence of mathematical procedures. First, the objective function and its constraints are identified. Then, the Lagrangian function is constructed by combining them with

are fundamental for analyzing the long-term behavior of dynamic systems and are widely used in macroeconomics to study growth and development patterns.

42. (A) ad - bc
The determinant of a two-by-two matrix is a single numerical value that summarizes specific properties of the matrix. It is calculated by taking the product of the elements on the main diagonal and subtracting the product of the elements on the secondary diagonal. This value is used to determine if a matrix is invertible and to solve systems of linear equations using Cramer's Rule. Understanding this calculation is fundamental for linear algebra applications.

43. (D) $TR = 120Q - 2Q^2$
Total revenue is the total amount of money a firm receives from selling its goods and is calculated by multiplying the price of the product by the quantity sold. Given a linear demand function expressing price as a function of quantity, the total revenue function is obtained by multiplying that entire expression by the quantity variable. This results in a quadratic function that can be used to analyze the firm's revenue-maximizing production levels.

44. (A) $f'(x) = 0$
A stationary point is a location on a function's curve where the rate of change is zero. Mathematically, this occurs when the first derivative of the function with respect to its independent variable equals zero. At this point, the tangent to the curve is perfectly horizontal. Stationary points are critical in optimization because they represent potential maximums, minimums, or points of inflection, and are the primary focus when seeking optimal economic and social solutions.

45. (A) (i), (ii), and (iii) only
Static optimization involves finding optimal values at a single point in time without considering temporal dynamics. The first-order conditions identify potential stationary points by setting derivatives to zero. However, these are necessary but not sufficient, requiring second-order conditions to determine if the point is a maximum or minimum. Unlike unconstrained problems, constrained optimization incorporates limitations directly into the solving process to find feasible and efficient economic and technical solutions for firms.

46. (A) $0 < a < 1$
In a dynamic model using a first-order difference equation, the behavior of the time path depends on the value of the slope parameter. When this parameter is positive and strictly less than one, the variable will gradually approach the equilibrium value without oscillating. This indicates a stable and direct convergence over time. Understanding these parameter values is essential for predicting whether an economic system will return to balance following a disturbance or external shock.

47. (A) (Lagrange Multiplier, Constrained optimization)
Mathematical tools are often associated with specific types of analysis in economics. Lagrange multipliers are the standard technique for solving optimization problems where a function is subject to one or more equality constraints. This method is distinct from other tools like Cramer's Rule, which solves linear systems, or the Hessian matrix, which evaluates second-order conditions. Correctly pairing these concepts is essential for applying the appropriate mathematical framework to solve specific problems in modern economic theory.

48. (B) does not exist
The existence of a limit requires the function to approach the same value from both the left and right sides of a specific point. For the function defined as the absolute value of x divided by x, the value is positive one for all positive numbers and negative one for all negative numbers. As x approaches zero, these two values do not match. Consequently, the limit at that point is said not to exist.

49. (B) The total value of intermediate inputs per unit of output for that industry.
In a Leontief Input-Output system, the technology matrix contains coefficients that represent the input requirements for production. Summing all the elements within a specific column of this matrix yields the total value of intermediate inputs required to produce one unit of that industry's output. This total

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member. Understanding the null set is essential for defining set operations and establishing the foundations of logic.

34. (A) $|a| < 1$

The dynamic stability of a first-order difference equation depends on the magnitude of the coefficient associated with the lagged variable. If the absolute value of this coefficient is strictly less than one, the deviations from the equilibrium point will diminish over time, leading to convergence. If the value is one or greater, the system will either oscillate indefinitely or diverge. This criterion is crucial for determining if economic models return to balance.

35. (A) Both A and R are true and R is the correct explanation of A.

A matrix is invertible if and only if its determinant is non-zero. This is because the calculation of the inverse involves dividing the adjugate of the matrix by its determinant. If the determinant were zero, this operation would be undefined, making the matrix singular. Therefore, checking the determinant is the primary method for determining if a square matrix has an inverse, which is essential for solving many linear algebraic systems of equations.

36. (D) The amount of input from industry i required to produce one unit of output for industry j.

In the technology matrix of a Leontief Input-Output model, each element represents a specific technical coefficient. These coefficients indicate the amount of a particular industry's output that is required as an intermediate input to produce exactly one unit of output in another industry. This linear relationship assumes fixed production proportions and is a key component for calculating the total production needed across all sectors to satisfy a given level of demand.

37. (C) 25

Marginal revenue measures the change in total revenue resulting from an additional unit of output. For a quadratic revenue function, the marginal revenue is a linear function. Setting this marginal revenue function to zero identifies the level of production where total revenue is at its maximum. This calculation is a standard procedure in microeconomics for finding the optimal output level for a firm, particularly when analyzing the behavior of a price-setting monopolist.

38. (C) Statement I is true, but Statement II is false.

A function is fundamentally defined as a rule that maps each element of one set to exactly one element of another. This definition forms the basis of functional analysis in mathematics. Additionally, the set of all real numbers satisfies all the axioms of a vector space when considered over itself, including closure under addition and scalar multiplication. Identifying these properties correctly is essential for understanding the structural foundations of calculus and linear algebra.

39. (D) Local maximum.

The second derivative test is a common method in calculus used to determine the nature of a stationary point. If the first derivative is zero at a point and the second derivative is negative, it indicates that the function's curve is concave downward at that location. This downward curvature confirms that the stationary point is a local maximum. This test is essential for optimization tasks, such as finding the highest possible levels.

40. (C) (i), (ii) and (iii) only

Linear programming problems are defined by several strict structural requirements. They must have a linear objective function that is to be maximized or minimized and a set of constraints expressed as linear inequalities or equations. Additionally, the decision variables are typically restricted to non-negative values to reflect real-world conditions. These specific characteristics distinguish linear programming from other types of optimization and ensure that the problem can be solved using standard iterative algorithms.

41. (C) A first-order differential equation.

Differential equations are used to describe how a variable changes continuously over time in relation to its current value. A first-order differential equation involves the first derivative of the variable. In economic models, this can represent the growth of national income as a function of the income itself. These equations

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a multiplier. Differentiating this new function with respect to all variables yields first-order conditions. After solving these equations to find stationary points, second-order conditions must be evaluated to confirm whether the result is a maximum or minimum value.

26. (A) Feasible region.
In linear programming, the feasible region is the set of all possible points that satisfy every given constraint simultaneously. This area, which is always convex, contains all potential solutions that do not violate any of the problem's limitations. The optimal solution, which maximizes or minimizes the objective function, must lie somewhere within or on the boundary of this region. Identifying this region is the first step in solving any problem.

27. (D) Difference equations.
Difference equations are used to model variables that change over discrete time intervals. In many economic scenarios, such as the Cobweb model, the current supply of a good depends on the price observed in the previous period. This creates a recursive relationship that can be analyzed to determine if the market will converge to an equilibrium or oscillate. This mathematical approach is essential for studying the dynamics of specific markets over time.

28. (B) n = p
Matrix multiplication is a specialized operation that requires the dimensions of the involved matrices to be compatible. Specifically, the product of two matrices is only defined if the number of columns in the first matrix is exactly equal to the number of rows in the second matrix. This structural requirement ensures that the row-by-column multiplication process can be completed. Failing to meet this condition makes the multiplication mathematically impossible and undefined.

29. (C) The rate of change of the slope of the function in the x-direction.
Second-order partial derivatives measure the rate at which the first-order partial derivatives change. For a function of two variables, the direct second derivative with respect to x indicates how the slope of the function in the x-direction is changing as x varies. This value describes the curvature or concavity of the surface along that specific axis. Such information is vital for verifying whether a stationary point is a maximum or minimum.

30. (C) P-2, Q-4, R-1, S-3
Mathematical tools serve various roles in economic analysis across different contexts. The first derivative identifies marginal values like cost, while Lagrange multipliers represent shadow prices in optimization. Difference equations are fundamental for modeling dynamic processes such as the Cobweb model. Determinants play a vital role in solving systems of equations through methods like Cramer's Rule. Together, these concepts provide a robust framework for quantitative economic modeling and decision-making in research.

31. (A) $a \cdot e^{ax}$
Differentiating an exponential function where the exponent is a linear function of x involves a specific rule. The derivative of the natural exponential function is the function itself, multiplied by the derivative of the exponent. In this case, the constant in the exponent becomes a coefficient for the entire expression. This mathematical operation is common in modeling continuous growth processes, where the rate of change is proportional to the current value.

32. (B) Every LP problem has an associated LP problem called the dual.
Duality is a central concept in linear programming which states that every maximization problem has a corresponding minimization problem. These two problems are mathematically linked, and the solution to one provides deep insights into the solution of the other. The variables of the dual problem, often interpreted as shadow prices, reveal the marginal value of the resources used in the primal problem. This relationship is fundamental for economic analysis and resource allocation.

33. (B) A set containing no elements at all.
A null set, or empty set, is defined as a collection that contains no elements at all. In set theory, it is represented by a specific symbol and is considered a subset of every other possible set. It is distinct from a set containing the number zero, as that would be a singleton set with one

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excludes primary inputs like labor or capital. Analyzing these column sums is important for understanding the production structure and the intermediate resource intensity of different industrial sectors.

50. (C) Statement I is true, but Statement II is false.
Matrix properties are defined by specific relationships between their elements and their transposes. A symmetric matrix is one that remains unchanged when its rows and columns are interchanged, which inherently requires the matrix to be square. However, not every square matrix possesses this symmetry. Therefore, while being symmetric implies being square, the reverse is not true. Understanding these distinctions is fundamental for working with advanced matrix operations and identifying the specific characteristics of transformations.

51. (D) General solution.
A general solution to a differential equation represents the broadest possible set of functions that satisfy the equation. It includes a number of arbitrary constants that corresponds to the order of the differential equation. These constants allow the solution to be tailored to specific initial or boundary conditions to find a particular solution. The general solution is essential for understanding the overall behavior and all possible time paths of a dynamic economic or physical system.

52. (D) 1
The identity matrix is a unique square matrix characterized by ones on the main diagonal and zeros everywhere else. One of its most important properties is that its determinant is always equal to one, regardless of the matrix's order. This value remains constant because the identity matrix represents the multiplicative identity in matrix algebra, similar to the number one in basic arithmetic. This property is useful for simplifying various complex matrix calculations and proofs.

53. (C) An upward-sloping straight line.
The marginal cost is defined as the first derivative of the total cost function. If the marginal cost is a constant value, it indicates that each additional unit of output increases the total cost by the same amount. Integrating a constant value with respect to quantity results in a linear function of quantity plus a constant term for fixed costs. Graphically, this relationship is represented by a straight line with a constant positive slope.

54. (B) Span of the set of vectors.
The span of a set of vectors is the collection of all possible vectors that can be created by multiplying those vectors by scalars and adding them together. This set forms a subspace within the larger vector space. If the set of vectors is linearly independent and their span covers the entire space, they are said to form a basis. Understanding the span is essential for analyzing the reach and structure of different vector combinations in space.

55. (C) P-4, Q-3, R-1, S-2
Mathematical terminology defines specific relationships between collections and rules. A set is a well-defined collection of distinct objects, while a sequence is an ordered list of numbers. A series represents the sum of the terms in such a sequence. Finally, a function is a rule that establishes a correspondence between elements of two non-empty sets. Correctly identifying these terms is fundamental for clear communication and the accurate application of mathematical concepts in various scientific research fields.

56. (A) Exhibit explosive oscillations.
The stability of the Cobweb model depends on the relative elasticities of the supply and demand curves. If the supply curve is flatter than the demand curve, meaning the elasticity of supply is greater, the price will experience oscillations that grow larger over time. This phenomenon is known as explosive oscillation and indicates that the market will move further away from equilibrium. Analyzing these elasticities is crucial for understanding the price dynamics of agricultural commodities.

57. (C) Marginal Revenue equals Marginal Cost and the slope of MC is greater than the slope of MR.
Profit maximization for a firm occurs when the difference between total revenue and total cost is at its largest. This requires two specific conditions. First, the marginal revenue must equal the marginal cost. Second, for the point to be a maximum, the marginal cost must be

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increasing faster than the marginal revenue at that level of output. This ensures that further production would decrease profit, confirming that the firm has reached its optimal output level.

58. (B) $d^2y/dt^2 + 3d\frac{y}{d}t + 2y = 0$

The order of a differential equation is determined by the highest derivative present in the expression. A second-order differential equation includes the second derivative of the dependent variable with respect to time or another independent variable. These equations are used to model more complex dynamics than first-order equations, such as systems with acceleration or multiple interdependent variables. Identifying the order of an equation is the first step in selecting the appropriate method for its solution.

59. (C) A static optimization problem with an equality constraint.

Utility maximization is a central problem in consumer theory where an individual seeks to achieve the highest possible satisfaction given a limited budget. Since the goal is to optimize an objective function subject to an equality constraint, it is classified as a static optimization problem. This type of problem is typically solved using the Lagrange multiplier method, which allows for the derivation of demand functions by considering the trade-offs between different goods and income.

60. (A) Both A and R are true and R is the correct explanation of A.

The Hawkins-Simon conditions are essential for ensuring the economic viability of a Leontief Input-Output system. A positive determinant for the matrix ensures that the industry can produce enough surplus to meet final demand after satisfying its own intermediate needs. This mathematical requirement translates to the physical reality that production must be self-sustaining. Without these conditions being met, the system would result in impossible or negative output levels. This is why the reasoning is correct.

61. (C) The matrix A is non-singular.

A system of linear equations has a unique solution if the coefficient matrix is non-singular, meaning its determinant is not zero. A non-singular matrix is invertible, allowing for the direct calculation of the variables by multiplying the inverse matrix by the vector of constants. This condition ensures that the equations are linearly independent and define a specific point in space. Verifying that a matrix is non-singular is essential for solving most market equilibrium problems.

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62. (D) 1/x

The natural logarithm is a fundamental function in calculus with a unique derivative property. The rate of change of the natural logarithm of a variable with respect to that variable is equal to the reciprocal of the variable. This relationship is frequently used in economics to calculate growth rates and elasticities, as the derivative of the logarithm of a function provides the percentage change relative to the change in the underlying variable itself.

63. (A) The potential optimal solutions.

In the graphical solution of a linear programming problem, the feasible region is a convex polygon formed by the intersection of several linear constraints. The fundamental theorem of linear programming states that if an optimal solution exists, it must occur at one or more of the corner points of this region. Therefore, to find the maximum or minimum value of the objective function, one only needs to evaluate it at these specific extreme points.

64. (A) 3

A geometric sequence is a list of numbers where each term after the first is found by multiplying the previous term by a fixed, non-zero number called the common ratio. To find this ratio, one can divide any term in the sequence by the term that immediately precedes it. In this specific sequence, dividing any two consecutive terms consistently results in the same value. Identifying this ratio is essential for calculating the series sum.

65. (B) (ii), (iii) and (iv) only

Differential calculus involves several key concepts for analyzing function behavior. The chain rule is essential for differentiating

composite functions, while the second derivative measures how the slope changes, indicating curvature. It is also important to note that continuity is a prerequisite for differentiability, but not all continuous functions can be differentiated at every point. However, the derivative of any constant value is always zero, not one. These principles are fundamental for optimization.

66. (A) Arbitrary constants.
A particular solution of a difference or differential equation is a specific function that satisfies the equation but does not contain any arbitrary constants. While the general solution includes constants to cover all possible time paths, a particular solution often represents a steady state or a specific trajectory determined by given initial conditions. Finding this solution is a critical step in dynamic analysis, as it describes the long-term equilibrium behavior of the modeled system.

67. (C) $A \cdot A' = I$ (A multiplied by its transpose is the identity matrix)
An orthogonal matrix is a special type of square matrix characterized by a unique relationship with its transpose. For such a matrix, multiplying the matrix by its own transpose results in the identity matrix. This property implies that the inverse of an orthogonal matrix is simply its transpose, which greatly simplifies many linear algebraic calculations. Orthogonal matrices are important because they preserve lengths and angles during linear transformations and rotations in multi-dimensional space.

68. (D) Indifference curve.
The marginal rate of substitution measures the rate at which a consumer is willing to give up one good in exchange for another while maintaining the same level of utility. Graphically, this value corresponds to the absolute slope of the indifference curve at any given point. Analyzing these curves is essential for understanding consumer preferences and identifying the optimal consumption bundle where the indifference curve is tangent to the budget line in theory.

69. (B) Decrease or stay the same.
In a maximization linear programming problem, adding a new constraint restricts the feasible region. Since some previously feasible solutions may no longer be allowed, the best achievable objective value cannot improve. Therefore, the optimal value may either decrease (if the old optimum becomes infeasible) or remain the same (if it still satisfies the new constraint), but it cannot increase.

70. (C) (iii), (iv) and (v) only
Determinants are unique properties of square matrices, and the determinant of a product equals the product of individual determinants. While transposing a matrix involves swapping both rows and columns, having identical rows results in a zero determinant, not one. Furthermore, Cramer's Rule is only applicable to systems where the coefficient matrix is non-singular. Understanding these specific properties is critical for solving linear systems and analyzing the characteristics of different transformations in space.

71. (D) First-order differential equations.
Stability analysis in economic models often involves determining if a system returns to equilibrium over time. In the Harrod-Domar model, the relationship between investment, savings, and income is modeled using continuous variables. Therefore, the stability of the growth path is analyzed through the use of first-order differential equations. These equations describe the rate of change of national income and help identify the conditions under which the economy stays on its warranted growth trajectory.

72. (A) f''(c) = 0
A point of inflection is a location on a curve where the concavity changes from upward to downward or vice versa. In calculus, this change in curvature is typically identified by setting the second derivative of the function to zero. While the first derivative might also be zero at such a point, it is the second derivative's behavior that is definitive. Locating these points is important for understanding the varying returns and structural changes.

73. (A) Both A and R are true.
Linear programming relies on the geometric properties of linear inequalities. The collection

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the concepts of limits, continuity, and the various levels of mathematical infinity explored in advanced set theory and calculus.

120. (C) (i), (ii), (iii) and (iv) only
The Hawkins-Simon conditions guarantee that a Leontief Input-Output system produces non-negative output for any non-negative final demand. These requirements include a non-negative technology matrix and a Leontief matrix where all principal minors are positive. Meeting these conditions ensures that the economy is productive enough to sustain itself. This mathematical framework is vital for planning and analyzing the structural dependencies within different industrial sectors of a national or regional economy in modern economic studies.

121. (C) $(u'(x)v(x) - u(x)v'(x)) / [v(x)]^2$
The quotient rule is a fundamental procedure in calculus used to find the derivative of one function divided by another. It specifies that the derivative is the denominator times the derivative of the numerator, minus the numerator times the derivative of the denominator, all divided by the square of the denominator. This rule is essential for differentiating economic ratios, such as average cost or average productivity functions, which are critical for understanding efficiency and firm performance.

122. (A) $c_1v_1 + c_2v_2 + ... + c_nv_n$, where c_i are scalars.
A linear combination is a fundamental operation in vector spaces that involves scaling several vectors and adding the results together. Each vector is multiplied by a corresponding scalar, and the resulting vectors are then summed to produce a new vector. This process is used to define key concepts such as span, basis, and linear independence. Linear combinations allow for the representation of complex vectors in terms of simpler components, which is essential for solving systems of linear equations.

123. (C) Lagrangian function.
The Lagrangian function is a specialized mathematical tool used to solve optimization problems that are subject to equality constraints. It is constructed by taking the original objective function and adding the constraint, which has been multiplied by a new variable called the Lagrange multiplier. This transformation allows the constrained problem to be treated using the standard methods of unconstrained calculus. The resulting function is the starting point for finding the optimal values of the variables and interpreting the multiplier's meaning.

124. (D) The variable remains constant over time.
In the study of dynamic systems through difference or differential equations, a steady state represents a condition of balance where the variables being modeled no longer change over time. Once a system reaches this equilibrium point, it will remain there indefinitely unless acted upon by an external force or disturbance. Identifying the steady state is a primary goal of dynamic analysis, as it describes the long-term destination of the variable's time path in various economic and physical models.

125. (A) (iii), (i), (ii), (iv)
Solving linear systems using the matrix inversion method follows a specific logical progression. The process begins by representing the equations in a compact matrix form. Next, the determinant of the coefficient matrix is calculated to ensure that an inverse exists. If the determinant is non-zero, the inverse matrix is then determined. Finally, the solution is found by pre-multiplying the constant vector by this inverse. This systematic approach ensures a unique solution for the system of variables being investigated.

126. (D) The objective function value can be increased infinitely without violating any constraints.
An unbounded solution in linear programming occurs when the constraints do not sufficiently restrict the objective function in the direction of optimization. This means that one can continue to increase the value of a maximization objective, or decrease a minimization one, to infinity without ever violating a constraint. In a real-world context, this usually suggests that the problem was formulated incorrectly or that a vital resource limitation was omitted from the model. Correcting these issues is essential.

127. (A) $S_n = \frac{n}{2} \cdot \left[2a + (n-1)d\right]$
An arithmetic series is the sum of terms in a sequence where each term increases by a

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81. (B) 5

Marginal utility represents the additional satisfaction gained from consuming one more unit of a specific good while holding others constant. Mathematically, it is the partial derivative of the total utility function with respect to that good. For a utility function defined as the product of two goods, the marginal utility of one good is simply equal to the quantity of the other good currently being consumed. This relationship is fundamental for analyzing consumer choice and equilibrium.

82. (A) $X = (I - A)^1 \cdot D$

The Leontief Input-Output model uses a system of linear equations to represent the production and consumption relationships in an economy. The total output of each sector must equal the sum of intermediate demand from other sectors and the final demand from consumers. By using the technology matrix and the identity matrix, this relationship is expressed as a matrix equation. Solving for the total output requires inverting the Leontief matrix and multiplying it by the vector of final demand.

83. (C) Minimization problem.

Linear programming problems are always paired through the principle of duality. For every primal problem that seeks to maximize an objective function, there is a corresponding dual problem that aims to minimize a related function. The constraints of the maximization problem transform into the variables of the minimization problem, and vice versa. This dual relationship provides valuable economic interpretations, such as shadow prices, and offers alternative methods for finding the optimal solution to complex allocation problems.

84. (D) $y_t = 5 + 2t$

A first-order difference equation with a constant term represents a process where each value is the previous value plus a fixed increment. The solution to such an equation describes the time path of the variable. Starting from an initial value, the variable increases by the constant amount in each period. This results in a linear function of time, where the coefficient of the time variable is the constant increment. This model is useful for representing growth patterns.

85. (C) A is true but R is false.

Differentiability and continuity are related but distinct properties of functions. A function must be continuous to be differentiable, meaning that being differentiable at a point automatically implies that the function is also continuous there. However, the reverse is not true. A function can be continuous at a point but have a sharp corner or cusp that prevents it from having a defined derivative. This distinction is critical for correctly applying calculus techniques to various functions.

86. (A) [[1, 3], [2, 4]]

The transpose of a matrix is an operation that flips the matrix over its main diagonal. This is achieved by interchanging the rows and columns, such that the first row becomes the first column and the second row becomes the second column. Transposition is a fundamental operation in matrix algebra used in various applications, including calculating the inner product of vectors and defining symmetric matrices. Understanding how to transpose a matrix is essential for linear algebra.

87. (D) Point of stationary inflection.

A stationary point is defined by a first derivative of zero. To determine its nature, the second derivative is examined. While a positive or negative second derivative indicates a minimum or maximum, a second derivative of zero suggests a point of inflection. If the first derivative is also zero at this location, it is specifically called a point of stationary inflection. This indicates that the function flattens out before continuing to increase or decrease.

88. (A) Set Theory

The principle of inclusion-exclusion is a fundamental rule in set theory used to calculate the size or probability of the union of multiple sets. It accounts for the fact that simply adding the individual probabilities would double-count the overlapping elements. Therefore, the probability of the intersection must be subtracted to arrive at the correct total. This logical approach is essential for correctly determining probabilities in events that are not mutually exclusive in statistical and economic analyses.

89. (C) Marginal cost of production.

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of all points satisfying these constraints forms a feasible set that is always convex, meaning any line segment between two points in the set remains within it. Because the objective function is also linear, its extreme values must be found at the boundaries of this set, specifically at the corner points. These principles ensure that efficient algorithms can find the optimal solution.

74. (A) {3}

The intersection of two sets is a new set that contains only the elements that are present in both original sets simultaneously. By comparing the members of two specific collections, one can identify which items are shared between them. This operation is fundamental in set theory for narrowing down criteria and finding commonalities. In this instance, examining the two groups reveals only one value that appears in both, which constitutes the intersection.

75. (A) (ii), (iv), (i), (iii)

Mathematical learning typically progresses from basic structures to complex applications. Sets and functions provide the fundamental language for all mathematical logic. Linear algebra introduces matrices for managing multiple variables, followed by differential calculus for analyzing change. Finally, these concepts are combined in constrained optimization to solve real-world problems. This logical progression ensures that foundational concepts support more advanced techniques used in economic modeling and various scientific fields of study in the curriculum.

76. (B) The maximum number of linearly independent rows or columns.

The rank of a matrix is a fundamental property that describes its structural complexity. It is defined as the maximum number of rows or columns that are linearly independent of each other. This value provides information about the dimension of the vector space spanned by the matrix and is used to determine if a system of linear equations has a unique solution. A matrix with full rank has the maximum possible number of independent components.

77. (C) $1\frac{0}{q}+5+2q$

Average cost is a measure of the cost per unit of output and is calculated by dividing the total cost function by the quantity produced. For a total cost function containing fixed, linear, and quadratic terms, the resulting average cost function will include a term for average fixed cost and linear terms for variable costs. Analyzing this function is essential for identifying the level of output that minimizes cost and understanding firm production efficiency.

78. (B) (Unstable case, Demand curve steeper than supply curve)

The Cobweb model describes the price dynamics in markets with production lags. Stability depends on the relative slopes of the supply and demand curves. A stable case occurs when the demand curve is flatter than the supply curve, whereas uniform oscillations happen when their slopes have equal absolute values. However, an unstable or explosive case is characterized by a supply curve that is flatter than the demand curve. Identifying these slope relationships is vital.

79. (A) The first-order conditions.

In the Lagrange multiplier method, the first step to finding an optimal solution involves differentiating the Lagrangian function with respect to the choice variables and the multiplier itself. Setting these partial derivatives to zero generates a set of equations known as the first-order conditions. These equations define the necessary relationships between the variables at a stationary point. Solving this system allows researchers to identify potential maximum or minimum values for the constrained objective function being analyzed.

80. (A) P-3, Q-1, R-4, S-2

Different types of mathematical functions are distinguished by the specific relationships between their variables. A linear function features a constant rate of change, while a quadratic function includes a squared term, creating a parabolic shape. Exponential functions have the independent variable in the exponent, representing rapid growth or decay. Finally, logarithmic functions are the inverses of exponential ones. Correctly categorizing these functions is essential for choosing the right model to represent various phenomena.

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The price elasticity of demand measures how responsive consumers are to changes in price at a specific point on the demand curve. It is calculated by taking the derivative of the demand function with respect to price and multiplying it by the ratio of price to quantity at that point. For a linear demand curve, this value changes depending on the price level. Calculating this elasticity is crucial for firms when making decisions and understanding market dynamics.

98. (C) Ones on the main diagonal and zeros elsewhere.

The identity matrix is a fundamental element in linear algebra that acts as the multiplicative identity for matrices, similar to the number one in arithmetic. It is always a square matrix and is defined by having ones along its main diagonal and zeros in every other position. Multiplying any compatible matrix by the identity matrix leaves the original matrix unchanged. This unique structure is essential for defining matrix inverses and solving various systems of linear equations.

99. (C) To distinguish between a maximum, minimum, or saddle point.

In static optimization, identifying stationary points through first-order conditions is only the first step. The second-order condition, which involves examining the second derivative or the Hessian matrix, is necessary to determine the nature of these points. It reveals whether the function is concave or convex at that location, thereby distinguishing between a local maximum, a local minimum, or a saddle point. This evaluation is critical for ensuring that the identified solution represents the desired outcome.

100. (D) The model is primarily used for dynamic analysis of economic growth.

The Leontief Input-Output model is a powerful tool for analyzing the structural interdependencies between different sectors of an economy. It relies on several key assumptions, including linear production functions and the absence of input substitution. While it is excellent for static analysis of production requirements and resource allocation, it is not primarily designed for the dynamic analysis of long-term economic growth. Understanding its limitations is just as important as mastering its mathematical framework for effective planning.

101. (C) $y_t = A(-a)^t$

A homogeneous first-order difference equation represents a process where each term is a constant multiple of the previous term, without any additional constant. The solution to this equation describes an exponential time path. The base of this exponential function is the negative of the coefficient of the lagged variable from the original equation. This solution shows whether the variable will grow, shrink, or oscillate over time, providing key insights into the dynamic stability of the modeled system.

102. (B) {2}

The intersection of two sets identifies the elements that are common to both groups. When comparing the set of all even numbers with the set of all prime numbers, one must find values that satisfy both criteria. While most prime numbers are odd, two is unique because it is the only number that is both prime and even. Therefore, the resulting intersection set contains only this single number. This exercise demonstrates the application of basic set operations.

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103. (D) $f'(g(x)) \cdot g'(x)$

The chain rule is a fundamental formula in calculus used to find the derivative of a composite function. It states that the derivative of a function of another function is the derivative of the outer function, evaluated at the inner function, multiplied by the derivative of the inner function itself. This rule is essential for analyzing complex economic models where one variable depends on another, which in turn depends on a third, such as utility depending on consumption.

104. (A) Linearly independent.

A set of vectors is considered linearly independent if no vector in the set can be expressed as a linear combination of the others. This means that the only way to get a zero vector from a linear combination of these vectors is to set all the scalar coefficients to zero. Linearly independent vectors are essential for forming a basis, as they provide the minimum number

of components needed to span a specific vector space without any redundancy.

105. (B) P-2, Q-4, R-1, S-3

Different matrix types are defined by their specific internal symmetries and properties. A symmetric matrix is equal to its transpose, whereas a skew-symmetric matrix equals its negative transpose. Singular matrices are characterized by having a determinant of zero, meaning they lack an inverse. The identity matrix serves as the multiplicative unit in matrix algebra. Recognizing these structures allows for the simplification of complex calculations and the analysis of linear transformations in space during various mathematical and economic studies.

106. (A) Increase in the optimal value of the objective function per unit increase in the constraint constant.

In a constrained optimization problem, the Lagrange multiplier serves as a shadow price for the constraint. It indicates the change in the optimal value of the objective function that would result from a one-unit increase in the constraint's constant. For example, in cost minimization, it represents the marginal cost of production. Understanding the interpretation of the multiplier is crucial for making informed decisions about resource allocation and assessing the sensitivity of the optimal solution to external changes.

107. (D) Represent the unused capacity of a resource.

Linear programming models often use specialized variables to convert inequalities into equations for easier calculation. A slack variable is added to a less than or equal to constraint to account for the difference between the left and right sides. In an economic context, this variable represents the amount of a resource that remains unused or the capacity that is not fully utilized. Monitoring slack variables helps managers identify which constraints are binding and which resources are in surplus.

108. (B) Samuelson's multiplier-accelerator interaction model.

Second-order difference equations are used to model dynamic systems where the current state depends on the two previous periods. A classic application in economics is Samuelson's multiplier-accelerator interaction model, which describes the cyclical fluctuations of national income. This model combines the consumption multiplier with the investment accelerator, creating a complex relationship that can lead to various types of business cycles. Analyzing these equations is essential for understanding the causes and patterns of periodic economic instability.

109. (C) 10

Average cost is minimized at the point where it equals the marginal cost. To find this level of output, one can either equate the average cost and marginal cost functions or differentiate the average cost function and set it to zero. For a total cost function with fixed and quadratic components, this minimum point represents the firm's most efficient scale of production. Calculating this value is essential for long-run planning and for determining the firm's competitive market position.

110. (A) Both A and R are true and R is the correct explanation of A.

The stability of the Cobweb model is determined by the relative responsiveness of producers and consumers to price changes. If the supply curve is steeper than the demand curve in absolute terms, it means that producers react less strongly than consumers to deviations from equilibrium. This dampens the price oscillations over time, causing them to eventually converge to the equilibrium point. Understanding this relationship is vital for analyzing price stability in agricultural markets where production lags occur.

111. (A) Sample Space

In the study of probability, a sample space is the comprehensive set of all possible outcomes that can result from a specific experiment or random process. Every individual outcome is considered an element of this set. Defining the sample space is the first step in calculating probabilities, as it establishes the denominator for the likelihood of any particular event. This foundational concept from set theory is essential for accurate statistical analysis and for modeling uncertain economic events.

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112. (B) u'(x)v(x) + u(x)v'(x)
The product rule is a fundamental technique in calculus used for differentiating the product of two functions. It states that the derivative of the product is equal to the first function multiplied by the derivative of the second, plus the second function multiplied by the derivative of the first. This rule is essential for analyzing economic relationships where one variable is the product of two others, such as total revenue being the product of price and quantity.

113. (B) Linearly independent and span the space.
A basis for a vector space is a specialized set of vectors that perfectly describes the space's structure. To qualify as a basis, the vectors must be linearly independent, meaning none can be formed from the others, and they must span the entire space, meaning every vector in the space can be written as their linear combination. The number of vectors in a basis defines the space's dimension. These properties are fundamental for performing linear transformations and changing coordinates.

114. (A) The system returns to equilibrium from any starting point.
Global stability is a strong property of a dynamic system indicating that it will always return to its equilibrium state regardless of where it begins. Unlike local stability, which only ensures return from nearby points, global stability guarantees that any disturbance, no matter how large, will eventually be corrected as the system converges over time. Analyzing global stability is crucial for ensuring the resilience of economic models and for understanding the long-term behavior of complex market forces.

115. (C) (i), (iii), and (iv) only
Matrix multiplication follows several specific rules that distinguish it from the multiplication of real numbers. While it is associative and distributive over addition, it is generally not commutative, meaning the order of matrices matters. Additionally, the identity matrix serves as a multiplicative neutral element, leaving any matrix it multiplies unchanged. Understanding these properties is essential for correctly manipulating matrix equations and for applying linear algebra to solve systems of equations and perform complex data transformations in scientific research.

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116. (D) f'(c) = 0 and f''(c) > 0
A local minimum is a point on a function where the value is lower than all surrounding points. Calculus identifies these locations using two specific conditions. First, the rate of change must be zero, indicating a stationary point. Second, the second derivative must be positive at that point, which shows that the curve is concave upward. This combination of a flat slope and upward curvature confirms that the function has reached its lowest point in that immediate vicinity.

117. (A) Both Statement I and Statement II are true.
The principle of duality in linear programming establishes a symmetric relationship between two problems. Every primal problem has an associated dual, and the dual of that dual returns the original primal problem. Furthermore, the structure of these problems is linked such that each variable in the primal corresponds to a constraint in the dual, and vice versa. This mathematical symmetry ensures that solving one problem provides complete information about the other, including optimal values and shadow prices.

118. (B) y = c (a constant)
A differential equation where the derivative of a variable with respect to time is zero describes a system where the variable does not change. Mathematically, the only functions with a zero derivative are constant values. Therefore, the solution to this equation is a constant, which represents a state of perfect rest or equilibrium. This simple but fundamental result is the basis for identifying steady states in more complex dynamic models across physics, economics, and other scientific disciplines.

119. (D) An infinite set
Sets are categorized based on the number of elements they contain. A set is described as infinite if its members cannot be counted using a finite sequence of numbers, meaning it continues without end. Common examples include the set of all integers or real numbers. Infinite sets possess unique properties that differ from finite ones and are essential for defining

In a constrained minimization problem, the Lagrange multiplier provides significant economic insight. It measures the rate at which the minimum value of the objective function changes as the constraint is relaxed by one unit. When a firm minimizes cost subject to a production quota, this multiplier represents the additional cost of producing one more unit of output. Thus, the multiplier is interpreted as the marginal cost of production at the optimal level of resource allocation.

90. (B) (i), (ii) and (iv) only

Continuity is a fundamental property that describes the smooth behavior of functions. Polynomial functions are naturally continuous everywhere, while rational functions maintain continuity wherever their denominators are not zero. For a function to be continuous at a specific point, its limit must exist and equal the function's value at that location. However, a function like one over x is not continuous at zero because it is undefined there. Understanding these rules is essential for calculus studies.

91. (D) Only two decision variables.

The graphical method is a visual technique for solving linear programming problems by plotting constraints on a coordinate plane. Because a standard graph only has two dimensions, this method is limited to problems involving exactly two decision variables. It allows for the identification of the feasible region and the evaluation of the objective function at its corner points. For problems with three or more variables, more complex algebraic methods like the Simplex algorithm must be used.

92. (B) $\frac{c}{1+a}$

The particular solution of a first-order difference equation represents the steady-state equilibrium where the variable remains constant over time. This value is found by assuming that the variable in the current period is equal to its value in the previous period. By substituting this constant value into the equation and solving for it, one arrives at a formula involving the constant term and the slope parameter. This equilibrium is the focal point of analysis.

93. (A) Both Statement I and Statement II are true.

Triangular matrices have zeros either above or below the main diagonal, and their determinants are uniquely the product of the diagonal elements. This property simplifies many calculations in linear algebra. Similarly, a diagonal matrix consists of zeros everywhere except on the main diagonal. Its inverse is also a diagonal matrix, where each diagonal element is replaced by its reciprocal. These specific matrix properties are frequently used to solve systems of equations and to simplify complex matrix transformations.

94. (D) Subsets of S.

The power set of a given set is a comprehensive collection that includes every possible subset that can be formed from the original set's elements. This includes the empty set and the set itself. For any set with a finite number of elements, the number of members in its power set follows a specific exponential growth pattern. Understanding power sets is fundamental for exploring the foundations of set theory, logic, and various levels of mathematical infinity.

95. (B) (i), (ii), and (iii) only

For a producer to maximize profit in an unconstrained environment, they must employ inputs until the value of their marginal product equals their cost. This means the price multiplied by the marginal product of labor should equal the wage, and similarly for capital. Additionally, the marginal rate of technical substitution must align with the input price ratio. These conditions ensure that the firm produces output at the most efficient level possible given costs.

96. (B) Integrating the equation.

In dynamic economic models, differential equations describe the relationship between a variable and its rate of change over time. To find the actual time path, which shows the value of the variable at any given moment, one must perform the inverse operation of differentiation. Integrating the differential equation, along with using initial conditions, provides the specific function that tracks the variable's progress. This process is essential for understanding long-term growth and transitions toward equilibrium.

97. (B) $-\frac{2}{3}$

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constant difference. The formula for the sum of the first several terms involves the first term, the number of terms, and the common difference. Alternatively, it can be expressed using the average of the first and last terms multiplied by the total number of terms. This formula is essential for calculating totals in patterns of linear growth, such as total interest paid.

128. (B) Substitutes.

Cross-price elasticity measures how the quantity demanded of one good responds to a price change in another good. If this value is positive, it indicates that an increase in the price of one good leads consumers to buy more of the other good. This behavior characterizes substitute goods, where consumers switch their consumption as one option becomes relatively more expensive. Identifying these relationships is vital for firms when setting prices and for analyzing market competition between products.

129. (B) Rank of the matrix formed by the vectors.

The rank of a matrix is a central concept in linear algebra that quantifies the number of independent dimensions within the matrix structure. It is specifically defined as the maximum number of rows or columns that are linearly independent of each other. This value determines whether a set of vectors can span a certain space and if a system of equations has a unique solution. Calculating the rank is a fundamental step in analyzing the properties of linear models.

130. (B) P-3, Q-1, R-4, S-2

Optimization techniques are categorized based on whether they involve constraints and whether they seek maximums or minimums. A monopolist maximizing profit by selecting output level is an unconstrained maximization problem. Conversely, a consumer maximizing utility within a specific budget represents constrained maximization. Firms minimizing average cost perform unconstrained minimization, while minimizing cost for a fixed output level is constrained minimization. These distinctions are fundamental for applying the correct mathematical models to various economic behaviors.

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131. (C) The complementary function and the particular integral.

Solving a non-homogeneous linear differential equation involves finding two distinct components. The first part, the complementary function, represents the solution to the corresponding homogeneous equation and describes the system's transition. The second part, the particular integral, satisfies the full non-homogeneous equation and often represents the long-run equilibrium or steady state. The general solution is simply the sum of these two parts. This combined approach is essential for modeling the complete time path of variables in dynamic systems.

132. (D) Additive Law: A + B = B + A

Sets follow several fundamental algebraic laws that govern their operations. These include the commutative and associative laws for both union and intersection, as well as the distributive law which describes how these operations interact. However, while sets can be combined or intersected, they do not follow an additive law similar to standard arithmetic. Set theory uses its own unique set of symbols and rules that are distinct from basic numerical addition. Mastering these laws is essential for rigorous reasoning.

133. (C) $f(L,K) = {}^{n} \cdot f(L,K)$

A function is considered homogeneous of degree n if multiplying all of its input variables by a constant factor results in the entire function being multiplied by that factor raised to the power n. This property is crucial in production theory for identifying returns to scale. For example, a production function that is homogeneous of degree one exhibits constant returns to scale. Understanding these homogeneity properties allows economists to classify production processes and predict how output changes with input increases.

134. (B) Convert a 'greater than or equal to' inequality into an equality.

Linear programming uses specialized variables to manage different types of inequality constraints. A surplus variable is subtracted from the left side of a greater than or equal to constraint to create an equality. This variable represents the amount by which the current solution exceeds

the minimum requirement set by the constraint. In an economic context, it can indicate excess production or an over-fulfillment of a specific target. Properly incorporating surplus variables is essential for utilizing algebraic solution methods.

135. (A) Both A and R are true and R is the correct explanation of A.
Cramer's Rule is a specific method in linear algebra used to solve systems of linear equations with the same number of equations and variables. It involves the use of determinants calculated from the coefficient matrix. Specifically, each variable's value is found by taking the determinant of a modified matrix and dividing it by the determinant of the original coefficient matrix. This technique is highly effective only when the determinant is non-zero, as explained in the reason.

136. (A) $-1 < a < 0$
The time path of a first-order difference equation is determined by its slope parameter. When this parameter is negative but has an absolute value less than one, the variable will oscillate around its equilibrium value. Because the magnitude of these oscillations decreases in each successive period, the process is described as damped. Eventually, the variable will settle at the equilibrium point. This type of behavior is common in market models where adjustments involve periodic overshooting that stabilizes.

137. (C) $dz = (\partial z/\partial x)dx + (\partial z/\partial y)dy$
The total differential of a function with multiple variables represents the total change in the dependent variable resulting from small changes in all independent variables. It is calculated by taking the sum of the partial derivatives of the function, each multiplied by the change in its respective variable. This concept is fundamental in calculus for linearizing functions and for analyzing how various factors simultaneously contribute to the overall movement of an economic variable, such as utility or production.

138. (A) Transpose of its cofactor matrix.
The adjugate, also known as the adjoint, of a square matrix is a specific matrix derived from its internal structure. It is formed by taking the matrix of all the cofactors of the original elements and then transposing it. This matrix is essential for calculating the inverse of a matrix, as the inverse is found by dividing the adjugate by the matrix's determinant. Understanding how to find the adjugate is a key skill for solving systems of equations manually.

139. (D) -0.5
A budget constraint represents all possible combinations of two goods that a consumer can afford given their income and the prices of the goods. When plotted on a graph with one good on the vertical axis, the budget line is a straight line. Its slope is determined by the negative of the ratio of the prices of the two goods. This slope indicates the rate at which the market allows the consumer to trade one good for another while staying within budget.

140. (A) (i), (ii) and (iii) only
The Simplex method is a powerful algebraic algorithm used to solve linear programming problems with many variables. It functions by systematically moving between the corner points of the feasible region, ensuring that the value of the objective function improves at each step. Starting from an initial feasible solution, often the origin, the method continues until it reaches an optimal point where no further improvement is possible. This iterative procedure is the standard approach for solving complex optimization problems in business.

141. (C) Difference or differential equations.
Analyzing the equilibrium of a market over time requires tools that can handle dynamic changes. Intertemporal equilibrium looks at how prices and quantities adjust through different periods. This is modeled using difference equations for discrete time steps or differential equations for continuous change. These mathematical frameworks allow economists to track the time path of variables and determine if the market will stabilize at an equilibrium point or experience ongoing fluctuations. This dynamic analysis is essential for understanding trends.

142. (D) $f''(x) \geq 0$
The curvature of a function is determined by its second derivative. A function is classified as convex if its slope is non-decreasing as the input variable increases. This means that the second

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derivative is always greater than or equal to zero across the entire domain. Graphically, a convex function curves upward, similar to a bowl. This property is fundamental in optimization, as any local minimum of a convex function on a convex set is also a global minimum for that function.

143. (C) 16

The power set of any given set is the collection of every possible subset that can be formed from its elements. For a set with a finite number of members, the total number of subsets is calculated using an exponential formula where two is raised to the power of the number of elements. For a set with four members, this calculation results in sixteen distinct subsets. This concept is important for understanding the full range of combinations possible within a specific group.

144. (B) No solution.

A system of linear equations is inconsistent and has no solution if the equations represent parallel lines that never intersect. This happens when the coefficients of the variables in one equation are a direct multiple of those in the other, but the constant terms do not follow the same ratio. In such a case, the two equations contradict each other, as they imply the same combination of variables must equal two different totals. Identifying these systems is vital for modeling.

145. (B) (i), (ii), (iii), and (v) only

Differential calculus is a versatile tool in economics for analyzing marginal changes and optimizing behavior. It is used to derive marginal utility from total utility and to find profit-maximizing output levels. Additionally, it helps calculate point elasticity of demand and identify returns to scale through function homogeneity. However, solving linear systems with Cramer's Rule is a function of linear algebra rather than calculus. These applications allow economists to model various decision-making processes precisely in different market scenarios.

146. (A) A maximum in one direction and a minimum in another.

In the context of multi-variable functions, a saddle point is a stationary point with a unique topographic character. It occurs where the function reaches a maximum when moving in one specific direction but reaches a minimum when moving in another. This creates a shape similar to a physical saddle. Mathematically, it is identified when the first partial derivatives are zero, but the second-order conditions reveal a lack of uniform curvature. Locating saddle points is essential for comprehensive surface analysis.

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147. (C) Statement I is true, but Statement II is false.

The Lagrange multiplier method is a sophisticated technique that converts a constrained optimization problem into a simpler unconstrained form by creating a new function. This new Lagrangian function combines the objective and the constraint through a multiplier. While the first-order conditions for the original objective function would involve its own derivatives, the conditions for the Lagrangian involve taking partial derivatives with respect to all variables, including the multiplier itself. This comprehensive approach ensures that the optimal solution satisfies the constraint perfectly.

148. (D) The graph of the function can be drawn through 'a' without lifting the pen.

Continuity is a fundamental property that describes a smooth and unbroken path for a function. Graphically, a function is continuous at a point if its curve can be drawn through that location without ever having to lift the drawing tool from the surface. This means there are no jumps, gaps, or holes at that specific point. Mathematically, it requires the function to be defined, the limit to exist, and for both values to be exactly equal. This property is essential for differentiation.

149. (B) $y(t) = A \cdot e^{-at}$

A first-order homogeneous linear differential equation describes a process where the rate of change of a variable is proportional to its current value. The solution to this equation represents an exponential time path. Specifically, the variable changes over time according to a function involving the base e raised to the power of the negative of the proportionality constant multiplied by time. This model is commonly used to represent natural decay or growth processes where the system returns toward zero.

single moment in time. It relies on first-order conditions to identify stationary points and second-order conditions, involving the Hessian matrix, to confirm if these points are maximums or minimums. Additionally, Lagrange multipliers provide essential information about how the optimal value changes when constraints are adjusted. Mastering these concepts is fundamental for analyzing firm production, cost minimization, and consumer utility maximization in research.

166. (B) Zero.

In linear programming, surplus and slack variables are added to inequality constraints to transform them into equations. These variables represent unused resources or excess production. Because they do not directly contribute to the goal of the problem, such as total profit or cost, they are assigned a coefficient of zero in the objective function. This ensures that the inclusion of these mathematical tools does not alter the actual optimal value being sought while allowing for the use of standard algorithms.

167. (D) All elements off the main diagonal are zero.

A diagonal matrix is a specialized type of square matrix where the structure is simplified. It is defined by having all elements outside of the main diagonal equal to zero. The elements on the main diagonal itself can be any value, including zero. These matrices are easy to work with because operations like multiplication and finding the inverse are straightforward. Diagonal matrices are often used to represent scaling transformations and are a key component in the process of matrix diagonalization.

168. (C) Equal to zero.

Total revenue is the total income a firm receives from sales. To find its maximum value, one must look at the rate of change of the revenue function. This rate of change is the marginal revenue. According to the principles of calculus, a function reaches a local maximum at a stationary point where its first derivative is zero. Therefore, total revenue is maximized at the specific level of output where marginal revenue equals zero. This is a fundamental microeconomic rule.

169. (C) A single element.

A singleton set is a specific type of set that contains exactly one element. In the hierarchy of set theory, it sits between the empty set, which has no elements, and larger sets with multiple members. This concept is important for defining functions and mapping relationships where a single output is associated with an input. Understanding set types is fundamental for building complex mathematical structures and formal logic systems used in various branches of science and advanced mathematical analysis.

170. (C) (i), (ii), and (iii) only

Formulating a linear programming problem requires several specific components to be defined. First, there must be a linear objective function that represents the goal of maximization or minimization. Second, a set of constraints must be established, all of which are linear equations or inequalities. Finally, non-negativity restrictions are usually applied to the decision variables to reflect real-world practicalities. These structural elements ensure that the problem remains within the realm of linear optimization and can be solved using standard algorithms.

171. (C) $y_p = \frac{c}{a}$

A non-homogeneous linear differential equation has a solution composed of two distinct parts. The particular integral is a specific solution that satisfies the complete equation including the constant term. For a first-order equation with a constant coefficient and a constant term, the particular integral often represents the steady-state equilibrium value. This value is found by setting the derivative to zero and solving for the variable. Identifying this equilibrium is a key step in analyzing the behavior of dynamic systems.

172. (A) $f_x y = f_y x$

Young's Theorem, also known as the theorem on the invariance of the order of partial differentiation, is a key principle in multi-variable calculus. It states that for a function with continuous second-order partial derivatives, the cross-partial derivatives are equal. This means that differentiating first with respect to x and then y produces the same result as differentiating first with respect to y and then x. This symmetry

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common in models of accelerating growth or rising costs.

158. (D) Number of vectors in any basis for the space.
The dimension of a vector space is a fundamental measure of its size and complexity. It is specifically defined as the number of vectors contained in any basis for that space. This value represents the maximum number of linearly independent vectors available and the minimum number of vectors needed to span the entire space. Every basis for a particular space will have the same number of vectors. Understanding the dimension is essential for performing transformations and solving equations.

159. (C) (Series, a collection of distinct objects)
Mathematical terminology uses specific definitions for collections and patterns. A set is a group of distinct objects, while a sequence is a list where order matters. A series, however, is not just a collection but specifically refers to the sum of the terms within a sequence. Correctly distinguishing between these terms is essential for accurate communication in mathematics and for applying the right tools to solve problems involving totals, patterns, and various categories of data in scientific research.

160. (B) Both A and R are true but R is not the correct explanation of A.
Linear programming problems are defined by a feasible region and an objective function. While every point within the feasible region satisfies the constraints, the goal is to find the one that yields the best objective value. The fundamental theorem of linear programming states that this optimal value must be located at one of the extreme points, or corners, of the feasible set. However, the existence of many feasible points does not itself explain why the optimum must be at a corner point.

161. (B) A Cobb-Douglas function.
The Cobb-Douglas function is a specific functional form widely used in economics to represent production and utility relationships. It features variables raised to constant powers and multiplied together. This form is popular because it possesses useful properties, such as being homogeneous and having constant elasticities. It allows economists to easily model returns to scale and substitution between inputs. Understanding the characteristics of this function is essential for analyzing firm behavior, consumer choice, and the productivity of industrial sectors.

162. (A) Several determinants.
Cramer's Rule is a specific method in linear algebra used to solve systems of linear equations with the same number of equations and variables. It involves the use of determinants calculated from the coefficient matrix. Specifically, each variable's value is found by taking the determinant of a modified matrix and dividing it by the determinant of the original coefficient matrix. This technique is highly effective for solving small systems and providing explicit formulas for equilibrium values in many economic and mathematical models.

163. (C) Continuous at that point.
Differentiability is a stronger property than continuity. For a function to have a defined derivative at a specific point, the function's curve must not only be unbroken but also smooth at that location. This means that continuity is a necessary prerequisite for differentiability. A function that is discontinuous at a point cannot have a tangent line or a derivative there. Therefore, establishing that a function is continuous is the first essential step before attempting to perform any differentiation or optimization.

164. (D) Deviation from the equilibrium time path.
Solving a non-homogeneous difference equation results in a general solution with two parts. The complementary function is the solution to the corresponding homogeneous equation. In dynamic analysis, this part describes the deviation of the variable from its equilibrium time path. It reveals the nature of the transition, such as whether the system oscillates or converges directly toward the steady state. Understanding the behavior of the complementary function is essential for determining the dynamic stability and long-term movement of the economic system.

165. (C) (i), (iii) and (iv) only
Static optimization is a core technique used to find the best possible value of a function at a

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analyzing the complexity and the behavior of the dynamic systems being modeled.

195. (A) (i), (ii), and (iv) only

Leontief-style utility functions describe preferences where goods are perfect complements and must be consumed in fixed proportions. Graphically, these preferences are represented by L-shaped indifference curves with a corner at the optimal consumption ratio. Unlike substitutes, the marginal rate of substitution is either zero or infinite, rather than constant. This model is useful for analyzing goods that are useless without each other, such as left and right shoes or specific machinery components that must be used together.

196. (D) Multiple optimal solutions with the same objective function value.

A linear programming problem can sometimes have more than one optimal solution. This occurs when the objective function is parallel to one of the binding constraint lines. In such cases, every point along the line segment between two corner points will yield the same maximum or minimum value. While there are multiple optimal combinations of decision variables, they all result in the same identical objective function value. Recognizing this possibility is important for providing flexible decision-making options in economic planning.

197. (C) 20

The determinant of a three-by-three matrix is a single numerical value calculated through a process called cofactor expansion. This involves multiplying each element of a row or column by its corresponding minor and cofactor. For matrices with specific numerical entries, this calculation reduces the problem to several simpler two-by-two determinants. The resulting value is essential for determining if the matrix is invertible and for solving systems of linear equations. This fundamental calculation is a cornerstone of linear algebra and diverse applications.

198. (B) $|r| < 1$

A geometric series is a sum of terms where each term is a constant multiple of the previous one. An infinite geometric series will only add up to a finite, specific value if the terms get smaller and approach zero quickly enough. This condition is satisfied when the absolute value of the common ratio is strictly less than one. If this requirement is met, the sum can be calculated using a simple formula involving the first term and the ratio.

199. (D) $x(\partial f/\partial x) + y(\partial f/\partial y) = n \cdot f(x, y)$

Euler's Theorem for homogeneous functions is a key identity in mathematical economics. It states that for a function of degree n, the sum of each variable multiplied by its own partial derivative is equal to n times the function itself. This theorem is particularly important in production theory, especially for constant returns to scale where the degree is one. It provides a mathematical basis for the product exhaustion theorem, showing how total output is distributed among different production factors.

200. (A) Concavity of the curve changes.

A point of inflection is a unique location on a function's graph where the curvature changes its orientation. This means the function shifts from being concave upward to concave downward, or vice versa. In calculus, these points are identified by finding where the second derivative changes its sign. While the first derivative or the function's value might also be zero at such a point, it is the change in the second derivative's behavior that is the definitive characteristic.

201. (D) The vectors must be orthogonal to each other.

A basis for a vector space is a specialized set of vectors that provides a complete and non-redundant description of the space. To be a basis, the vectors must be linearly independent and must span the entire space. While having vectors that are orthogonal to each other is a useful property that creates an orthogonal basis, it is not a strict requirement for a set to be considered a basis. Many valid bases exist where the vectors are not perpendicular.

202. (B) First-order linear differential equation.

The Solow growth model is a fundamental macroeconomic framework that describes how the capital stock of an economy evolves over time. Because it models change as a continuous process and relates the rate of change of capital to its current level and other factors, it is mathematically expressed as a first-order linear differential equation. Solving this equation

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is a fundamental property used to simplify many derivations and proofs.

173. (C) might have an unbounded solution.
The feasible region in a linear programming problem is the set of all points that satisfy all constraints. If this region is not enclosed, it is described as unbounded. While an unbounded feasible region does not always mean there is no solution, it creates the possibility that the objective function could be increased or decreased indefinitely. This situation, known as an unbounded solution, usually indicates that the problem formulation is missing a critical constraint that would limit the variables in reality.

174. (A) Sum of the diagonal elements.
The trace of a matrix is a simple but important numerical property calculated for square matrices. It is defined as the sum of all elements located on the main diagonal, from the top-left to the bottom-right corner. This value remains constant even if the basis of the vector space is changed, making it an invariant property of the linear transformation. The trace is used in various matrix operations, including the study of eigenvalues and characteristic polynomials in advanced mathematics.

175. (A) (iii), (iv), (i), (ii)
Finding the minimum of an average cost function involves a logical sequence of operations. Initially, the total cost function must be identified. From this, the average cost is derived by dividing the total cost by the quantity produced. Differentiating this average cost function and setting the result to zero identifies potential minimum points. Finally, checking the second derivative ensures that the stationary point indeed represents a minimum rather than a maximum value. This systematic approach is essential for accurate firm optimization.

176. (A) 0
In the study of calculus, a limit describes the value that a sequence or function approaches as the input gets closer to a specific point or infinity. For the sequence defined as one divided by n, the value of the terms gets progressively smaller as n increases. As n grows without bound, the terms become arbitrarily close to zero. Therefore, the limit of this sequence as n approaches infinity is defined as zero. This concept is fundamental for understanding convergence and infinite processes.

177. (D) The constant term on the right-hand side is zero.
Difference equations are categorized based on their internal structure. A first-order linear difference equation is described as homogeneous if there is no constant term or independent function of time added to the relationship between the variable and its lagged value. In such an equation, if the lagged variable is zero, the current variable will also be zero. Homogeneous equations are simpler to solve and represent systems that naturally tend toward zero unless they are driven by an external initial condition.

178. (A) $\frac{1}{|A|} \cdot \begin{bmatrix} d & -b \\ -c & a \end{bmatrix}$
The inverse of a two-by-two matrix is a specific matrix that, when multiplied by the original, results in the identity matrix. Its calculation involves several steps. First, the determinant must be found. Then, the elements on the main diagonal are swapped, and the signs of the other two elements are reversed. Finally, the resulting matrix is divided by the determinant. This formula is essential for solving systems of two linear equations and for performing various basic coordinate transformations in linear algebra.

179. (C) Luxury good.
Income elasticity of demand measures how the quantity demanded of a good changes in response to a change in consumer income. When this elasticity is positive, the good is a normal good. More specifically, if the elasticity is greater than one, it means the demand increases at a faster rate than income. Such goods are classified as luxury goods. Consumers spend a larger proportion of their income on these items as they become wealthier, distinguishing them from basic necessities or inferior goods.

180. (A) P-2, Q-4, R-3, S-1
Calculus provides a language for interpreting economic changes. The first derivative represents marginal functions, such as marginal cost, while integration reconstructs

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of output are constant. This implies a linear production technology where no substitution between different inputs is possible. This assumption simplifies the analysis of inter-industry dependencies and allows for the calculation of total production requirements using linear algebra. The reasoning correctly explains why the model assumes fixed coefficients, making the overall statement true and well-explained.

211. (C) -1

Price elasticity of demand measures the responsiveness of quantity demanded to changes in price. For a specific type of demand function where quantity is inversely proportional to price, the elasticity remains constant at all points on the curve. This is because the percentage change in quantity always exactly matches the percentage change in price, but in the opposite direction. Identifying this unit-elastic relationship is important for understanding how changes in price will affect the total revenue of a firm.

212. (D) The constant term in every equation is zero.

Systems of linear equations are categorized based on their constant terms. A system is described as homogeneous if the constant on the right-hand side of every single equation is exactly zero. Such systems always have at least one solution, known as the trivial solution, where all variables are zero. Determining whether non-trivial solutions exist involves examining the rank of the coefficient matrix. Homogeneous systems are fundamental for understanding the properties of linear transformations and finding eigenvalues in mathematical applications.

213. (A) Both Statement I and Statement II are true.

Linear programming relies on the geometric properties of linear inequalities. The collection of all points satisfying these constraints forms a feasible set that is always convex, meaning any line segment between two points in the set remains within it. Because the objective function is also linear, its extreme values must be found at the boundaries of this set, specifically at the corner points. These principles ensure that efficient algorithms can find the optimal solution to complex problems in resource allocation.

214. (B) The warranted rate of growth and the natural rate of growth.

The Harrod-Domar growth model focuses on the requirements for steady-state economic growth. It identifies three different growth rates: the actual rate, the warranted rate, and the natural rate. The stability of the growth path depends on whether these rates align. A significant problem in the model is that if the warranted growth rate, which keeps capital utilized, differs from the natural growth rate, determined by labor and technology, the economy will experience instability. This is the key issue.

215. (B) (ii) and (iv) only

The Lagrange multiplier method is a sophisticated technique that converts a constrained optimization problem into a simpler unconstrained form by creating a new function. This new Lagrangian function combines the objective and the constraint through a multiplier. While the first-order conditions for the original objective function would involve its own derivatives, the conditions for the Lagrangian involve taking partial derivatives with respect to all variables, including the multiplier itself. This comprehensive approach ensures the optimal solution satisfies the constraint perfectly.

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216. (A) 4

Calculating a limit sometimes involves dealing with expressions that appear undefined at a specific point. For a rational function where both the numerator and denominator approach zero, one can often simplify the expression by factoring. In this case, the numerator can be factored to cancel out the denominator, leaving a simpler linear function. Evaluating this simplified function at the point of interest provides the limit. This process allows for the determination of a function's behavior even where it is not defined.

217. (C) A symmetric matrix.

A square matrix is classified as symmetric if it remains identical after its rows and columns are interchanged. This property means that each element at a specific row and column position is equal to the element at the corresponding column and row position. Symmetric matrices are very common in economics, especially when representing distance, correlation, or second-

Additionally, the determinant of the Hessian matrix, which involves all second-order partial derivatives, must be positive. This ensures that the curvature is consistently downward in all directions. Verifying these conditions is critical for ensuring that an identified point maximizes an objective.

188. (B) The right-hand side constants of the primal constraints.

Every linear programming problem is uniquely linked to its dual through a set of transformation rules. In this relationship, the objective function of the dual problem is formed using the constants from the right-hand side of the primal constraints. Conversely, the coefficients of the primal objective function become the right-hand side values for the dual constraints. This symmetry is more than just a mathematical curiosity; it provides the basis for interpreting dual variables as shadow prices for primal resources.

189. (C) $A^2 = A$

An idempotent matrix is a specialized square matrix that remains unchanged when it is multiplied by itself. This means that squaring the matrix, or raising it to any positive integer power, always returns the original matrix. Idempotent matrices are important in various mathematical fields, especially in statistics and linear modeling, where they are often used to represent projection operations. Identifying these matrices is essential for understanding the properties of certain transformations and for simplifying complex algebraic expressions in data analysis.

190. (A) (i) and (ii) only

Dynamic economic models are classified based on how they treat the passage of time. Difference equations are used when time is considered as a series of distinct, discrete intervals, such as years or quarters. In contrast, differential equations are the appropriate tool for modeling variables that change continuously over every infinitely small moment. While both methods are used to track time paths and evaluate stability, they involve different mathematical techniques and are suited for different types of economic phenomena.

191. (A) Functional.

In the study of vector spaces, a functional is a specific type of mapping that takes a vector as its input and produces a real or complex number as its output. This is a specialized case of a function where the domain is a space of vectors. Functionals are widely used in advanced mathematics and optimization theory, including the study of dual spaces. Understanding functionals is essential for analyzing the properties of vector spaces and for performing more sophisticated operations in linear algebra.

192. (B) $Q = 5$

Profit is defined as the difference between total revenue and total cost. To find the level of output that maximizes this difference, one must calculate the marginal revenue and the marginal cost by taking the first derivatives of the respective functions. Setting marginal revenue equal to marginal cost and solving for the quantity variable identifies the optimal production level. This simple calculus-based approach is the standard method for determining the most profitable behavior for a firm in any market scenario.

193. (B) Contains all objects or elements under consideration.

The universal set is a central concept in set theory that defines the boundary of a specific discussion or problem. It contains all the objects, elements, and other sets that are currently under consideration. Any other set within the same context is necessarily a subset of the universal set. Defining the universal set is important because it allows for the clear definition of a set's complement, which consists of everything in the universal set that is not in the set itself.

194. (A) Both Statement I and Statement II are true.

Differential equations are classified by two primary characteristics: order and degree. The order of the equation is determined by the highest derivative it contains, such as first-order for the first derivative. The degree is defined by the exponent to which that highest-order derivative is raised. Correctly identifying both properties is the first step in selecting the appropriate mathematical method for solving the equation. These distinctions are essential for

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total functions from marginal ones. Stationary points, where the derivative is zero, are potential locations for optima. Furthermore, a positive second derivative indicates that the marginal function is increasing, which might represent rising marginal costs. These relationships are the cornerstone of neoclassical microeconomic analysis and help in determining efficient production levels for firms in various markets.

181. (D) The demand for goods and services for consumption, investment, government spending, and exports.

The Leontief Input-Output model provides a detailed map of an economy's production structure. While intermediate demand accounts for the goods used by industries themselves, final demand represents the ultimate use of these products by end-users. This includes consumption by households, government spending, investment in capital goods, and exports to other regions. Correctly identifying the components of final demand is essential for calculating the total output needed across all sectors to satisfy the needs of the entire economic system and participants.

182. (B) $d\frac{y}{d}x = F\left(\frac{y}{x}\right)$

A homogeneous differential equation has a specific structural property where the function can be expressed solely in terms of the ratio of the dependent and independent variables. This type of equation is often solved by using a substitution that transforms it into a separable equation. Recognizing this form is essential for selecting the appropriate integration technique. These equations are common in various scientific applications where the relationship between variables depends on their relative proportions rather than absolute values at a point.

183. (C) Tensor

Matrix algebra involves several different structures for organizing numerical data. A scalar is a single number, while a vector is a one-dimensional array, and a diagonal matrix is a specific type of square matrix. While these are all part of basic linear algebra, a tensor is a more complex mathematical object that generalizes scalars, vectors, and matrices to higher dimensions. Tensors are used in advanced physics and engineering but are not considered a standard type of matrix in basic studies.

184. (D) Non-homogeneous first-order difference equation.

The general solution of a non-homogeneous difference equation is the sum of two distinct parts. The first part, the complementary function, represents the solution to the homogeneous version of the equation. The second part, the particular solution, satisfies the full equation with the constant term. This combined solution describes the complete time path of the variable, showing both its long-term equilibrium and the deviations from it. Identifying both parts is essential for a thorough dynamic analysis of any discrete system.

185. (A) Both A and R are true and R is the correct explanation of A.

In the context of utility maximization, the Lagrange multiplier provides a measure of how the maximum achievable utility changes when the budget constraint is relaxed. Because it reflects the extra utility gained from an additional unit of income, it is frequently referred to as the marginal utility of income. This concept is vital for understanding the trade-offs consumers face and the value they place on wealth in their decision-making processes. This interpretation makes it the correct explanation.

186. (A) Continuity and derivatives.

The concept of a limit is the most fundamental building block of calculus. It provides the rigorous mathematical framework needed to define how a function behaves as it gets arbitrarily close to a specific point. Without limits, it would be impossible to formally define continuity, which requires the limit to equal the function value. Furthermore, the derivative itself is defined as the limit of a difference quotient. These concepts are essential for analyzing change, motion, and optimization in various scientific models.

187. (D) $f_x < 0$ and $f_x \cdot f_y y - (f_x y)^2 > 0$

To confirm that a stationary point is a local maximum for a function of two variables, second-order conditions must be satisfied. These conditions require the direct second-order partial derivative with respect to x to be negative, indicating downward concavity.

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allows economists to determine the steady-state level of capital and analyze how different growth rates affect the long-term wealth of a nation.

203. (C) The feasible region is convex and the objective function is linear.

The solutions to linear programming problems are dictated by the geometry of linear functions and convex sets. Because both the objective function and the constraints are linear, the feasible region is a convex polygon. A fundamental property of optimization on such sets is that the maximum or minimum value of a linear function must occur at one or more of the extreme points, which are the corners of the region. This principle simplifies the search for optimal solutions significantly.

204. (B) 0

A skew-symmetric matrix is a square matrix that is equal to the negative of its own transpose. This unique property has a specific implication for the elements on the main diagonal. For the condition to hold, each diagonal element must be equal to its own negative. The only real number that satisfies this requirement is zero. Therefore, every skew-symmetric matrix must have only zeros along its main diagonal. Recognizing this structure is essential for identifying the properties of linear transformations and operators.

205. (B) P-4, Q-2, R-1, S-3

Mathematical concepts are often represented by specific formulas that define their operations. The determinant of a two-by-two matrix is found by subtracting the product of the secondary diagonal from the main diagonal. The power rule is the standard method for differentiating polynomial terms. Infinite geometric series converge to a specific sum when the ratio is small. Finally, matrix multiplication is only defined when the dimensions of the internal components match correctly across the matrices. These are vital for quantitative studies.

206. (D) $MR = 150 - 6Q$

Marginal revenue is defined as the change in total revenue resulting from a small change in the quantity of output sold. For a firm facing a linear average revenue or demand curve, the total revenue is a quadratic function of quantity. The marginal revenue is then found by taking the first derivative of this total revenue function. This process reveals that the marginal revenue curve has the same intercept as the demand curve but has twice the slope.

207. (A) Every element of S is also in T.

The subset relationship is a fundamental way to compare two sets. One set is considered a subset of another if every single element contained in the first set is also a member of the second set. This definition allows for the two sets to be identical, or for the first set to be a smaller, proper part of the second. Understanding subsets is essential for building more complex set operations and for establishing the foundations of logic in mathematical research.

208. (B) Decisions made over multiple time periods.

Economic decisions often involve trade-offs between consuming now and consuming in the future. The intertemporal budget constraint is a mathematical representation of this limitation across multiple time periods. It ensures that the present value of total spending does not exceed the present value of total income over the relevant time horizon. This concept is fundamental for modeling savings behavior, investment choices, and the long-term sustainability of debt in both microeconomic and macroeconomic models of dynamic consumer behavior.

209. (B) All first-order partial derivatives are equal to zero.

In the study of multi-variable calculus, finding the maximum or minimum of a function starts with identifying stationary points. For an unconstrained maximization problem, the first-order condition requires that the rate of change in every direction be zero. This is achieved by taking the first-order partial derivatives with respect to each independent variable and setting them all to zero. These equations identify the points where the function's surface is perfectly flat, providing potential locations for the optimal values.

210. (A) Both A and R are true and R is the correct explanation of A.

The Leontief Input-Output model is built on the assumption of fixed production coefficients, meaning the inputs required to produce a unit

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150. (B) All its elements are zero.

A matrix is classified as a zero or null matrix if every single one of its internal elements is exactly zero. This matrix acts as the additive identity in matrix algebra, meaning that adding it to any other matrix of the same dimensions leaves the other matrix unchanged. While a zero matrix is always singular because its determinant is zero, not every singular matrix is a zero matrix. Identifying this matrix is essential for defining the foundations of linear algebraic operations.

151. (D) The amount of a non-produced input (like labor) per unit of output.

The Leontief Input-Output model tracks the flow of goods between industries and toward final consumers. In addition to intermediate inputs from other sectors, production requires primary inputs that are not produced within the system, such as labor or natural resources. A primary input coefficient represents the specific amount of such an input required to produce one unit of a given industry's output. These coefficients are essential for calculating total resource requirements and for assessing the impact of production.

152. (A) MP_i / MP_k

The marginal rate of technical substitution measures the rate at which a producer can swap one input for another while maintaining the same level of total output. It is a fundamental concept in production theory and is graphically represented by the slope of an isoquant. Mathematically, this value is calculated as the ratio of the marginal products of the two inputs. Finding the point where this ratio equals the input price ratio is essential for identifying the cost-minimizing combination.

153. (C) No set of variables satisfies constraints.

An infeasible solution occurs in linear programming when the set of constraints is so restrictive that no possible combination of variables satisfies all of them at once. This means the feasible region is empty. In an economic context, this typically indicates that the goals or targets set in the objective function are impossible to achieve given the available resources or limitations. Identifying and resolving these contradictions is a critical step in effective planning and resource management.

154. (B) -4

An arithmetic sequence is a list of numbers where the difference between any two consecutive terms remains constant. This value is known as the common difference. To find it, one simply subtracts any term from the term that follows it. If the sequence is decreasing, the common difference will be a negative number. Identifying this value is the first step in determining the general term of the sequence and calculating the sum of its terms in various numerical studies.

155. (C) P-3, Q-4, R-2, S-1

Different mathematical fields provide specialized tools for modeling specific economic phenomena. Differential equations are used to analyze growth models over continuous time, while difference equations model discrete processes like the Cobweb effect. Linear algebra, specifically matrices, is the foundation for Input-Output analysis. Optimization techniques are applied to consumer and firm behavior, such as utility maximization. Understanding these connections is essential for selecting the appropriate mathematical framework for various types of economic research and analysis in the scientific field.

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156. (B) The adjustment coefficient 'a'.

The stability of an equilibrium in a market modeled by a differential equation depends on how the price adjusts to imbalances between demand and supply. The adjustment coefficient represents the speed and direction of this response. For the system to be stable and return to equilibrium after a disturbance, the price must fall when there is excess supply and rise when there is excess demand. The sign and magnitude of this coefficient are therefore critical for determining the market's long-term behavior.

157. (C) Increasing at an increasing rate.

The behavior of a function's value and its growth pattern can be understood through its first and second derivatives. A positive first derivative indicates that the function is increasing. If the second derivative is also positive, it means the rate of change is itself increasing, meaning the slope is getting steeper as the input grows. This combination describes a function that is increasing at an increasing rate, which is

order partial derivatives in the Hessian matrix. Their unique structure ensures that they have several useful properties, including having real eigenvalues in space.

218. (B) The rate of change of marginal utility.
In the study of consumer behavior, the first derivative of total utility with respect to the quantity consumed is the marginal utility. The second derivative then measures how this marginal utility itself changes as consumption increases. Typically, according to the law of diminishing marginal utility, this second derivative is negative, indicating that each additional unit provides less extra satisfaction. Analyzing these derivatives is essential for understanding consumer choice and for deriving downward-sloping demand curves in standard microeconomic models.

219. (C) Converge to their equilibrium values.
Stability is a fundamental concept in dynamic modeling used to describe the long-term behavior of a system. A solution to a system of difference or differential equations is considered stable if the variables eventually approach and settle at their equilibrium values, regardless of small initial deviations. This convergence indicates that the system is self-correcting. Understanding the conditions for stability is essential for ensuring that economic models represent sustainable systems and for predicting how markets will respond to various external shocks.

220. (B) (i), (ii), (iv) and (v) only
Linear algebra provides a framework for managing multi-dimensional data and operations. A matrix is a rectangular array of numbers, and vectors are specialized matrices with a single dimension. A crucial property is that matrix addition is only possible between matrices of identical size. The rank represents the number of linearly independent components within the structure. While vector spaces can be infinite, finite-dimensional spaces are most common in standard economic applications and basic mathematical modeling across various scientific research studies.

221. (C) Differential equations.
A phase diagram is a powerful graphical tool used in the analysis of dynamic systems governed by differential equations. It allows for the visual representation of how variables change over time by plotting them against their rates of change or against each other. By examining the direction of movement arrows, researchers can identify equilibrium points and determine whether they are stable or unstable. This qualitative approach is invaluable for understanding the behavior of complex systems when an explicit analytical solution is difficult.

222. (D) The marginal value of an additional unit of a resource.
In linear programming, the variables of the dual problem are frequently interpreted as shadow prices. These prices represent the marginal value of the resources used in the primal problem. Specifically, a shadow price indicates how much the optimal value of the objective function would increase if one additional unit of a constrained resource were made available. This economic interpretation is vital for making decisions about resource procurement and for assessing the cost-effectiveness of expanding specific capacities within a production system.

223. (A) Inconclusive.
The second derivative test is the standard method for determining the nature of a stationary point. However, the test is only definitive when the second derivative is non-zero. If the second derivative at the point is also zero, the test fails to provide a conclusion about whether the point is a maximum, minimum, or an inflection point. In such cases, further investigation is required, such as using higher-order derivatives or examining the sign of the first derivative nearby.

224. (D) Union and intersection with complementation.
De Morgan's Laws are fundamental rules in set theory that describe the relationship between the three primary set operations: union, intersection, and complementation. These laws specify how to distribute a complement across a union or an intersection, revealing that the complement of a union is the intersection of the complements, and vice versa. These principles are essential for simplifying complex logical expressions and for correctly performing various

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Economists rely on this for optimization and marginal analysis, where they examine how incremental adjustments to variables like labor or price affect total utility, cost, or production without encountering sudden jumps.

257. (D) A firm's monthly profit figures recorded over the course of a year.

A sequence is defined as an ordered list of numbers representing data points observed at specific intervals. Profit figures recorded monthly over a year perfectly illustrate this concept. Such lists allow economists to track performance or economic indicators over time. This chronological ordering is fundamental for dynamic analysis and identifying trends or patterns in firm behavior and macroeconomic fluctuations.

258. (A) A series to sum the discounted future coupon payments.

Calculating the present value of a future income stream involves summing discounted payments. A series is specifically used for this summation process. By applying a geometric series, analysts can aggregate all future coupon payments into a single current value. This mathematical approach is essential for bond valuation, allowing investors to determine the equivalent worth today of future cash flows.

259. (C) A sequence is a list of numbers, whereas a series is the summation of that list.

The primary difference lies in their structure: a sequence is an ordered list of numbers, while a series is the sum of the elements within that list. In economics, sequences track variables like periodic GDP figures, whereas series are applied to calculate total values over time, such as the present value of future payments. Both are essential tools for analysis.

260. (A) The price is moving towards a stable long-run level.

Convergence in a sequence of prices suggests that the values are approaching a stable, specific point over time. From an economic perspective, this indicates the market is moving toward a long-run equilibrium. Stability analysis relies on these mathematical properties to determine if fluctuations will dampen out, allowing the variable to settle at a predictable level rather than exhibiting unstable behavior.

261. (D) Marginal revenue.

Differentiating a total revenue function with respect to the quantity produced yields marginal revenue. This value represents the instantaneous rate of change in revenue for an infinitesimal increase in output. It is a fundamental component of marginal analysis, helping firms determine the financial impact of expanding production by one additional unit, thereby facilitating optimal decision-making regarding supply levels and pricing strategies.

262. (B) adding more labor leads to an increase in total output.

A positive first derivative indicates that the function is increasing over its domain. In production, this means that as more labor input is added, the total output also increases. This relationship is central to understanding how resource allocation affects production levels. It serves as a starting point for analyzing productivity before considering more complex factors like diminishing returns or capacity constraints.

263. (C) Marginal analysis.

Derivatives measure the rate of change of a function, which is the foundational requirement for marginal analysis. This type of economic study examines the effects of small, incremental changes in variables such as cost, revenue, or utility. By calculating derivatives, economists can determine marginal costs and benefits, which are essential for making optimal choices in both micro economic behavior and policy.

264. (D) The law of demand.

A negative derivative of a demand function indicates that the quantity demanded decreases as the price increases. This inverse relationship is the mathematical expression of the law of demand. The sign of the derivative provides crucial information about the direction of change, confirming that the function is decreasing and reflecting the standard consumer behavior observed in most markets for goods.

265. (A) The slope of the tangent line to the function's curve at that point.

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to trade one good for another exactly equals the market price ratio. This tangency point identifies the most satisfying bundle of goods that the consumer can afford to purchase in theory.

233. (B) There are increasing returns to scale in production.

The Leontief Input-Output model relies on several simplifying assumptions to make the analysis of complex inter-industry relationships manageable. These include the assumption that each industry produces only one homogeneous good and that the technology matrix remains fixed, implying constant returns to scale. This means that a proportional increase in all inputs leads to an exactly proportional increase in output. Consequently, the model does not account for increasing returns, which is an important limitation to consider.

234. (A) $P(A) \cdot P(B)$

In probability theory, two events are considered independent if the occurrence of one does not affect the likelihood of the other. For such events, the probability of both occurring simultaneously is calculated by simply multiplying their individual probabilities. This fundamental rule allows for the simplification of complex probability problems and is widely used in statistical modeling, decision analysis, and the study of random processes. Correctly identifying independent events is essential for accurate calculations and making sound predictions.

235. (A) Both A and R are true and R is the correct explanation of A.

The equilibrium of a first-order difference equation is stable when the slope parameter is between negative and positive one. This is because the part of the solution that depends on this parameter raised to the power of time will shrink as time moves forward. As this deviation disappears, the variable's value settles at the steady-state equilibrium. This mathematical logic provides a perfect explanation for why the absolute value condition is necessary for stability in dynamic systems.

236. (A) Instantaneous rate of change of the function.

The derivative is a central concept in calculus that quantifies how a function changes in response to infinitely small changes in its input. Specifically, it represents the instantaneous rate of change or the slope of the function at a specific point. This allows for the precise measurement of marginal values in economics, such as marginal cost or utility. Understanding derivatives is essential for optimization, as setting the derivative to zero identifies stationary points where the function reaches its optimum.

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237. (C) Vector addition and scalar multiplication.

A vector space is a mathematical structure defined by a set of vectors and a set of scalars. For any set of objects to qualify as a vector space, they must be closed under two primary operations: vector addition and scalar multiplication. This means that adding any two vectors in the space, or multiplying a vector by a scalar, must always result in another vector that is also contained within the same space. These closure properties are foundations.

238. (A) Both Statement I and Statement II are true.

In a constrained optimization problem, constraints play a vital role in defining the feasible set. A binding constraint is one that is perfectly satisfied at the optimal point, meaning no surplus or slack exists. This is typically indicated by a non-zero Lagrange multiplier. Conversely, if a constraint is non-binding, it means the optimum could be achieved without it, and its multiplier is zero. Both statements accurately describe these central concepts in the mathematical analysis of optimization.

239. (A) Decision variables in the primal problem.

The structure of a dual linear programming problem is directly derived from the components of its primal counterpart. In this symmetric relationship, each decision variable in the primal problem corresponds to a specific constraint in the dual problem. Therefore, the total number of constraints in the dual is always exactly equal to the number of decision variables in the original primal problem. Understanding this correspondence is essential for correctly formulating dual problems and for interpreting the variables as shadow prices.

240. (A) (i), (ii), and (iii) only

Determinants possess several unique algebraic properties that simplify their calculation and application. One key rule is that if a matrix

allows for the use of specific algorithms to find optimal outcomes in models where resources are limited and goals like profit or cost must be addressed.

292. (A) The shadow prices or marginal values of the constrained resources.

The solution to the dual problem in Linear Programming provides the shadow prices or marginal values of the constrained resources. These values indicate how much the objective function would improve if the constraint on a specific resource were relaxed by one unit. This information is vital for firms to understand the economic worth of their inputs and prioritize efficient resource allocation.

293. (D) Their optimal values are equal.

According to the fundamental theorem of duality, if an optimal solution exists for the primal Linear Programming problem, then an optimal solution also exists for the dual problem. Most importantly, the optimal objective function values for both the primal and dual problems are identical. This relationship confirms the mathematical consistency between solving for production levels and solving for the shadow prices.

294. (B) Non-linear constraints.

Linear Programming specifically requires that all constraints be expressed as linear equalities or inequalities. Therefore, non-linear constraints are not a component of a standard LP problem. The model relies on decision variables, a linear objective function, and a set of linear constraints to determine the best possible outcome. This structure is essential for the application of duality and theorems.

295. (C) Linear Programming.

A factory deciding production levels to maximize profit subject to linear limits on labor and materials is a classic application of Linear Programming. This technique effectively manages multiple resource constraints simultaneously to find the most profitable combination of outputs. It is a powerful tool for operations research and managerial economics, providing clear solutions for resource allocation in complex environments with linear requirements.

296. (D) When modeling economic relationships in discrete time intervals.

Difference equations are the appropriate mathematical tool when an economic model treats time as discrete rather than continuous. These equations describe how variables change at distinct intervals, such as years or quarters. This is particularly useful for modeling production processes with lags or tracking economic data that is only reported periodically, allowing for step-by-step analysis of adjustments and transitions over time.

297. (A) A first-order differential equation.

The Solow growth model utilizes a first-order differential equation to describe how the capital stock evolves over continuous time. This equation accounts for the continuous flows of investment and depreciation, determining the path of capital accumulation. By solving this differential equation, economists can analyze long-run growth trends and understand how various factors influence the steady-state level of an economy's capital.

298. (B) To determine if the variable will converge to a steady-state equilibrium.

Stability analysis is performed to determine whether an economic variable will converge to a long-run steady-state equilibrium or diverge over time. In both difference and differential equations, this step is crucial for understanding the long-term behavior of a system. It helps identify if the economy will settle at a stable level or experience increasing fluctuations, which is essential for planning.

299. (B) a difference equation.

The Cobweb model explains price and quantity adjustments in agricultural markets where production lags exist between periods. To capture this discrete-time adjustment process, the model employs a first-order difference equation. This mathematical approach tracks how market variables change from one interval to the next, illustrating the potential for convergence toward equilibrium or the occurrence of persistent fluctuations in market prices.

300. (A) The behavior and evolution of economic variables over time.

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248. (B) 0
A singular matrix is a square matrix that does not have an inverse. This lack of invertibility is directly linked to the matrix's determinant. Specifically, a matrix is singular if and only if its determinant is exactly equal to zero. This zero value indicates that the rows or columns of the matrix are linearly dependent, meaning they do not provide enough independent information to define a unique point or solve a system of linear equations. Identifying these matrices is essential.

249. (C) Returns to the equilibrium position.
Stability is a key characteristic used to describe the long-term behavior of an equilibrium in a market or dynamic system. An equilibrium is considered stable if, following any small displacement or external shock, the market forces naturally work to move the system back toward its original balanced position. This self-correcting nature ensures that the equilibrium is a reliable point of rest for the modeled variables. Analyzing stability is essential for understanding the resilience of markets.

250. (B) Marginal utility of income.
In the context of utility maximization, the Lagrange multiplier provides a measure of how the maximum achievable utility changes when the budget constraint is relaxed. Because it reflects the extra utility gained from an additional unit of income, it is frequently referred to as the marginal utility of income. This concept is vital for understanding the trade-offs consumers face and the value they place on wealth in their decision-making processes across different economic scenarios.

251. (B) To establish a formal mapping between a set of inputs and a set of outputs.
Functions create formal links between sets, particularly inputs and outputs. In economics, this relates a domain of inputs, like labor or capital, to a codomain representing potential results. This mapping ensures every input corresponds to one output, allowing for clear modeling of production processes and consumer preferences through specific mathematical relationships and structures.

252. (A) Union
Combining different sets into a single collection representing all possible choices requires the union operation. This mathematical tool aggregates elements from multiple sets to describe combined possibilities. It is particularly useful in economics for defining the total set of available goods or consumption bundles, allowing for a comprehensive view of all distinct items within a market or choice scenario.

253. (C) The set of all possible consumption bundles.
The domain of a function consists of the set of all possible inputs. For a utility function, these inputs are consumption bundles that represent various combinations of goods. By mapping these bundles to numerical values of satisfaction, the function structures preferences. The domain provides the necessary foundation for evaluating how different choices impact a consumer's overall level of well-being.

254. (D) The function ensures that each specific consumption bundle has one and only one associated utility level.
Functions are defined by assigning exactly one element in the codomain to every element in the domain. In the context of utility, this ensures that each specific consumption bundle results in a unique, well-defined level of satisfaction. This mathematical structure allows economists to model preferences reliably, as it eliminates ambiguity regarding the satisfaction value associated with any particular combination of goods.

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255. (C) The specific levels of output produced.
The range of a function represents the set of all outputs produced from the inputs in the domain. In production modeling, this corresponds to the specific levels of output achieved from various combinations of labor and capital. Understanding the range is essential for determining the total possible production outcomes a firm can reach given its existing technology and available resource inputs.

256. (B) It allows for the application of differential calculus for marginal analysis.
Continuity implies a function's graph is unbroken, meaning small input changes lead to small output changes. This property is vital because it permits the use of differential calculus.

Solving a system of market equilibrium equations using this specific formula relies centrally on matrix inversion. By calculating the inverse of the coefficient matrix A, the economist can isolate the vector of unknown variables x. This operation is standard in linear algebra for finding solutions to systems where the relationship between inputs, coefficients, and constants is expressed through linear equations.

275. (C) It is a complex operation used for solving systems of equations.
Matrix multiplication is a sophisticated operation used to represent transformations and solve systems of equations. Unlike addition, it is not simply performed element-wise and is generally not commutative. Its primary utility in economics lies in its ability to handle complex interdependencies between variables, such as those found in input-output models or systems describing overall market equilibrium and resource allocation.

276. (A) The final demand for goods and services.
In the Leontief Input-Output model, the vector D represents the final demand for goods and services from external sources. This includes sectors such as household consumption, private investment, government spending, and international exports. This vector is distinct from inter-industry demands, as it captures the final requirements that the total production of the economy must satisfy after meeting production needs.

277. (D) The amount of input from industry i needed to produce one unit of output in industry j.
Each element a_{ij} in the technology matrix represents the specific amount of output from industry i that is required as an input to produce one unit of output in industry j. These coefficients quantify the technological interdependence between different sectors. They are essential for determining how changes in the production of one industry necessitate adjustments in the output levels of others.

278. (B) The Leontief inverse matrix, $(I - A)^{-1}$.
To find the total output vector X needed to satisfy a given final demand D, economists must calculate the Leontief inverse matrix, denoted as $(I - A)^{-1}$. Multiplying this inverse by the final demand vector yields the necessary production levels across all industries. This process accounts for both the direct and indirect resource requirements generated by the interdependence of economic sectors.

279. (C) A point in space, such as a consumption bundle.
A vector serves as a mathematical representation of a point in multi-dimensional space. In economic contexts, this can signify a specific consumption bundle or a set of prices for various goods. Using vectors allows for the formal structure of operations within a vector space, facilitating the analysis of complex systems where multiple variables must be tracked and manipulated simultaneously as one.

280. (D) The interdependencies among different industrial sectors.
The Input-Output model is primarily used to analyze the interdependencies among different industrial sectors within an economy. By mapping how the output of one industry serves as an input for others, the model helps determine the total production required to meet both internal and final demands. It provides a comprehensive view of the circular flow of goods between various activities.

281. (A) The first derivative of the objective function must be equal to zero.
The first-order necessary condition for identifying an optimal point in unconstrained optimization is finding the critical points where the first derivative of the objective function equals zero. These points represent locations where the slope is horizontal, making them candidates for a maximum or a minimum. This step is the initial phase of optimization, which is later refined by second-order conditions.

282. (B) The second derivative of the profit function must be negative.
After identifying an output level where marginal profit is zero, the second-order sufficient condition for a profit maximum requires the second derivative of the profit function to be negative. This negative value indicates that the profit function is concave at that point. It ensures that the marginal profit is decreasing,

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The derivative at a specific point on a function's curve represents the slope of the tangent line at that exact location. This geometric interpretation provides a local linear approximation of the function's behavior. In economics, it visualizes the instantaneous rate of change, allowing for a clearer understanding of how variables like costs or profits are trending at specific levels of production.

266. (B) It must be negative.
For a profit function to reach a local maximum, the second derivative must be negative at the point where the first derivative equals zero. This mathematical condition ensures the function is concave, or curving downwards. It signifies that marginal profit is decreasing at the peak, which is a necessary sufficient condition for confirming that the identified output level maximizes profit.

267. (B) at a local minimum.
A positive second derivative indicates that a function is convex, meaning it curves upwards. When this condition is met at a critical point where the first derivative is zero, it confirms the presence of a local minimum. In cost analysis, this ensures that the identified production level represents the point of lowest possible cost, satisfying the requirements for efficient resource management.

268. (A) The marginal utility derived from the good is diminishing.
A negative second derivative of the total utility function represents the rate of change of marginal utility. Specifically, it indicates that marginal utility decreases as consumption increases. This concept is a standard assumption in consumer theory known as diminishing marginal utility. It implies that while total satisfaction may rise, each additional unit adds less utility than the previous one.

269. (C) The function's curvature.
The second derivative primarily provides information about the curvature of a function. By examining its sign, economists can determine if a function is concave or convex. This insight is essential for optimization, as it helps distinguish between maximum and minimum points. It also describes the rate at which the marginal values themselves are changing, offering a deeper understanding of trends.

270. (D) The second derivative must be greater than zero.
To confirm a point of minimum cost, the second-order sufficient condition requires the second derivative of the cost function to be greater than zero. This positive value indicates that the function is convex at that point. Geometrically, the curve is bending upwards, ensuring that the critical point where the slope is zero represents the lowest value within that specific region.

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271. (C) The matrix of coefficients.
In a system of linear equations represented by the matrix form $Ax = b$, the matrix A contains the coefficients of the variables. These coefficients define the relationships between the unknown variables and the constant terms. This compact representation allows for the efficient organization and manipulation of large datasets, which is essential for solving complex economic models involving multiple interconnected variables.

272. (B) It must be a square matrix with a non-zero determinant.
For a matrix to possess an inverse, it must be square, meaning it has an equal number of rows and columns, and its determinant must be non-zero. These conditions ensure the matrix is non-singular, allowing for the unique solution of linear systems. Matrix inversion is a vital technique in comparative static analysis, enabling economists to solve for unknown prices or quantities.

273. (D) It has ones on the main diagonal and zeros elsewhere.
An identity matrix is a special square matrix characterized by having ones along the main diagonal and zeros in all other positions. It serves as the multiplicative neutral element in matrix algebra. When a matrix is multiplied by its inverse, the result is the identity matrix, which is a fundamental property used in solving systems of equations and performing linear transformations.

274. (A) Matrix inversion.

contains an entire row or column of zeros, its determinant is zero. Additionally, interchanging any two rows or columns flips the sign of the determinant, while the determinant of a matrix and its transpose are always identical. However, multiplying a single row by a scalar only multiplies the determinant by that scalar, not its square. These properties are fundamental.

241. (C) Convex sets.
The separating hyperplane theorem is a fundamental principle in the study of convex sets and optimization. It states that for any two disjoint convex sets, there exists a flat surface, or hyperplane, that can pass between them, effectively separating the two sets in space. This theorem is crucial for establishing the existence of optimal solutions and shadow prices in economic models. It provides the mathematical foundation for several important results in consumer theory and general equilibrium analysis.

242. (A) Instability of the equilibrium growth path.
The knife-edge problem is a famous critique of the Harrod-Domar growth model's stability. It refers to the model's finding that the equilibrium growth path is highly unstable. If the actual growth rate deviates even slightly from the warranted growth rate, the economy will not return to equilibrium but will instead move further away toward either persistent depression or accelerating inflation. This instability is a direct result of the model's rigid assumptions about fixed capital-output ratios.

243. (C) 500
In the analysis of cost functions, total cost is composed of two parts: fixed costs and variable costs. Fixed costs are the expenses that do not change with the level of output produced. Mathematically, these are represented by the constant term in the total cost equation, which remains even if the quantity variable is set to zero. Identifying fixed costs is essential for calculating average costs and for making short-run production decisions for firms in any market.

244. (D) Stationary point.
Stationary points are critical locations on a function's surface where the rate of change in all directions is zero. For a function with two variables, this occurs when the partial derivatives with respect to both variables are simultaneously equal to zero. These points are significant because they represent potential maximums, minimums, or saddle points. Identifying stationary points is the first step in solving optimization problems and analyzing the topography of complex functions, providing the foundation for second-order analysis.

245. (A) (i), (ii), (iii) and (iv) only
Dynamic economic models utilize difference and differential equations to describe how variables evolve over time. These equations allow researchers to identify equilibrium states and determine if they are stable. First-order equations are particularly common for modeling simple growth or price adjustments, such as the Cobweb model. While many models are first-order, more complex systems may require higher-order equations. This dynamic approach is essential for understanding long-term trends and the stability of various economic systems and interacting market forces.

246. (B) A minimization objective function and 'greater than or equal to' constraints.
The principle of duality in linear programming establishes a precise set of rules for transforming a primal problem into its dual. For a standard maximization problem with less than or equal to constraints, the corresponding dual will be a minimization problem. Furthermore, the less than or equal to inequalities in the primal become greater than or equal to inequalities in the dual. This transformation ensures that the optimal values of both problems are identical and allows shadow price interpretation.

247. (B) $f'(x) \leq 0$
Concavity is a property that describes the curvature of a function's graph. A function of one variable is classified as concave if the line segment connecting any two points on its curve lies entirely below or on the curve. In calculus, this condition is identified by examining the second derivative. If the second derivative is less than or equal to zero across the entire domain, the function is concave. This property represents the common phenomenon of diminishing marginal returns.

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confirming that the critical point represents the profit peak.

283. (B) unconstrained optimization.
Minimizing a cost function without specific limitations on choice variables is a form of unconstrained optimization. This process uses differential calculus to find the production level that results in the lowest cost. By setting the first derivative to zero and ensuring the second derivative is positive, economists can determine the most efficient output level for a firm in an environment.

284. (A) A local minimum and that the function is convex.
A positive second derivative at a critical point indicates that the function is convex, meaning it curves upward like a valley. This characteristic identifies the point as a local minimum. In economic applications, such as cost minimization, this condition is essential for verifying that the chosen variable value truly represents the lowest possible outcome for the objective function being analyzed.

285. (C) at a single, specific point in time.
Static optimization focuses on finding the best possible outcome at a single, specific point in time. Unlike dynamic analysis, it does not consider how variables evolve or adjust over successive periods. It addresses how agents make optimal choices under a fixed set of circumstances, providing a snapshot of efficient behavior such as profit maximization or cost minimization in stable environments.

286. (D) To solve optimization problems that are subject to constraints.
The Lagrangian method is designed to solve optimization problems that are subject to constraints, such as budget or resource limitations. It converts these constrained problems into unconstrained ones by incorporating the constraint directly into a new function. This technique is fundamental in economics for analyzing how agents maximize utility or profit while operating within the boundaries of fixed resource inputs.

287. (C) The marginal utility of income.
In consumer utility maximization, the Lagrange multiplier represents the marginal utility of income. It quantifies how much additional satisfaction a consumer would gain from a one-unit increase in their total budget. This economic insight treats the multiplier as a shadow price, reflecting the value of relaxing the budget constraint to allow for slightly higher levels of consumption and well-being.

288. (B) By summing the objective function and the constraint multiplied by the Lagrange multiplier.
The Lagrangian function is constructed by taking the original objective function and adding the constraint expression to it. The constraint must be rearranged to equal zero and is then multiplied by the Lagrange multiplier before being summed. This structural approach allows the problem to be solved using partial derivatives with respect to all variables, effectively integrating the limitation into optimization.

289. (D) the change in the objective function's optimal value from a slight relaxation of the constraint.
A shadow price refers to the change in the optimal value of the objective function that results from a one-unit relaxation of a constraint. It measures the marginal benefit or cost associated with having slightly more of a restricted resource. In the context of the Lagrangian method, this is represented by the multiplier, providing deep insights into the value of resources.

290. (A) Both the choice variables and the Lagrange multiplier.
To find the optimal solution using the Lagrangian method, one must set the partial derivatives of the Lagrangian function with respect to both the choice variables and the Lagrange multiplier to zero. This creates a system of equations that simultaneously satisfies the first-order conditions for optimization and ensures the original constraint is met, leading to the identification of optimal values.

291. (C) The objective function and constraints are both linear.
A defining characteristic of Linear Programming is that both the objective function and all associated constraints must be linear. This means all relationships are represented by straight lines or planes in mathematical terms. This linearity

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operations in probability and digital logic design within many scientific fields.

225. (B) (iii), (ii), (i), (iv), (v)
Solving a linear programming problem using the graphical method follows a specific logical sequence. The process begins with the formal formulation of the objective function and the constraints. Next, these constraints are plotted as lines on a graph to identify the feasible region. Once this region is established, the coordinates of its corner points are determined. Finally, the objective function is evaluated at each corner to find the optimal solution. This step-by-step approach ensures a clear visual and mathematical result.

226. (A) First-order homogeneous difference equation.
Difference equations are categorized based on their order and whether they include constant terms. A first-order equation involves only a single time lag. It is described as homogeneous if there is no additional constant or independent function of time in the equation. Such an equation represents a purely recursive process where each value is a multiple of the previous one. Understanding these basic structures is essential for dynamic modeling, as it allows for the analysis of how variables evolve over time.

227. (C) Second-order partial derivatives.
The Hessian matrix is a square matrix composed of the second-order partial derivatives of a multi-variable function. It provides a complete description of the local curvature of the function's surface. In optimization, the Hessian is essential for verifying the second-order conditions needed to distinguish between a maximum, a minimum, or a saddle point. By evaluating the determinant and the principal minors of the Hessian at a stationary point, mathematicians can determine the specific nature of that optimal point.

228. (D) Intermediate demand.
In the Leontief Input-Output model, the total output of each industry is used in two ways. Part of the output is sold to final consumers as final demand. The other part is used as intermediate inputs by other industries, including itself, to facilitate their own production processes. This intermediate use is represented by the product of the technology matrix and the total output vector. Correctly accounting for intermediate demand is essential for calculating the production required to support consumption.

229. (C) Identical to the marginal utility curve for that good.
Consumer demand curves are derived from the principle of utility maximization subject to a budget. In a simplified model where the marginal utility of money is assumed to be constant, a unique relationship emerges. The consumer will choose to buy each good up to the point where the marginal utility of that good equals its price multiplied by the marginal utility of money. Consequently, the demand curve for the good becomes a direct reflection of its marginal utility curve.

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230. (C) P-2, Q-3, R-1, S-4
The nature of the solution for a linear system depends on the properties of the coefficient matrix and the constants. A non-singular matrix always guarantees a unique solution. If the matrix is singular, the system may have either no solution or infinitely many, depending on the relationship between the adjoint and the constant vector. Finally, when the coefficient matrix is an identity matrix, the solution is simply equal to the constant vector itself in the linear system.

231. (C) Greater than 1.
The dynamic behavior of a difference equation is determined by its characteristic roots. These roots indicate whether the time path will converge toward or diverge away from the equilibrium value. If the absolute value of a characteristic root is strictly greater than one, any initial deviation from the equilibrium will grow larger with each passing period. This leads to an unstable or explosive time path. Identifying these roots is a critical step in assessing the dynamic stability.

232. (A) A point of consumer equilibrium.
Consumer equilibrium occurs when an individual maximizes their utility given their budget constraint. Graphically, this is represented by the point where the highest possible indifference curve is just touching, or tangent to, the budget line. At this specific point, the rate at which the consumer is willing

Difference and differential equations are the primary instruments for dynamic analysis in economics. They allow for the study of how economic variables behave and evolve over time, whether in discrete intervals or continuous flows. These tools are essential for understanding complex phenomena such as business cycles, economic growth trajectories, and the various adjustment processes that occur within markets and broader economies.

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(S) The theory primarily explains trade in agricultural commodities.

Which of the above statement(s) is/are correct?
(A) P and R only
(B) Q, R, and S only
(C) P, Q, and R only
(D) P and S only

69. An 'optimum tariff' is one that:
(A) Maximizes the volume of trade.
(B) Completely eliminates imports.
(C) Maximizes the net benefit for the tariff-imposing country.
(D) Is set at zero to promote free trade.

70. Which of the following is NOT a principle of the GATT/WTO system?
(A) Bilateralism
(B) Non-discrimination
(C) Reciprocity
(D) Transparency

71. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:

Assertion (A) : The formation of a customs union can be either trade-creating or trade-diverting.

Reason (R) : Trade creation occurs when a member country shifts from a high-cost domestic producer to a low-cost partner producer, while trade diversion occurs when it shifts from a low-cost external producer to a high-cost partner producer.

(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

72. The Gross Barter Terms of Trade is defined as the ratio of:
(A) The price of exports to the price of imports.
(B) The quantity of imports to the quantity of exports.
(C) The value of exports to the value of imports.
(D) The price of exports multiplied by the quantity of exports.

73. 'Covered Interest Arbitrage' involves:
(A) Simultaneously borrowing in one currency and lending in another without covering the exchange rate risk.
(B) Speculating on the future spot rate of a currency.
(C) Using a forward contract to eliminate the exchange rate risk when borrowing in one currency and lending in another.
(D) Buying a currency in the spot market and selling it in the futures market.

74. Consider the following statements regarding the Balance of Payments (BOP):
(P) A debit entry in the BOP leads to an outflow of foreign exchange.
(Q) The capital account includes foreign direct investment (FDI).
(R) Interest, profits, and dividends received from abroad are recorded in the current account.
(S) 'Accommodating' transactions are undertaken to correct a BOP disequilibrium.
(T) The sum of the current, capital, and financial accounts must always be positive.

Which of the above statement(s) is/are incorrect?
(A) T only
(B) P and T only
(C) Q and S only
(D) S and T only

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75. What is the main function of the 'Dispute Settlement Body' of the WTO?
(A) To mediate trade conflicts between member countries and issue binding rulings.
(B) To provide loans to countries facing trade deficits.
(C) To set global tariff rates for all member countries.
(D) To conduct trade policy reviews of member countries.

76. The 'absorption approach' to the balance of payments, developed by Sidney Alexander, analyzes the effect of devaluation in terms of:
(A) The supply and demand for money.
(B) National income and expenditure (absorption).
(C) The elasticities of demand for imports and exports.
(D) The movement of capital between countries.

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equally between trading partners.
(S) The principle of comparative advantage is the basis for mutual gains from trade.
Which of the above statement(s) is/are correct?
(A) P, Q, and S only
(B) P and R only
(C) Q, R, and S only
(D) P, Q, R, and S

9. What is a specific tariff?
(A) A tax levied as a percentage of the value of an imported good.
(B) A quantitative limit on the amount of a good that can be imported.
(C) A fixed sum of money levied on each physical unit of an imported good.
(D) A government payment to a domestic producer to encourage exports.

10. Which statement best represents the principle of 'National Treatment' under the WTO?
(A) Imported and local goods must be treated equally once they enter the market.
(B) Member countries must grant the same favored status to all other member nations.
(C) Member countries can impose tariffs to protect their nascent domestic industries.
(D) Trade disputes between member countries should be settled via bilateral negotiation.

11. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : According to the Heckscher-Ohlin theory, a country will export the good that uses its relatively abundant factor intensively.
Reason (R) : Differences in relative factor endowments are the primary cause of comparative advantage in international trade.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

12. All of the following are types of Balance of Payments disequilibrium ExCEPT:
(A) Cyclical disequilibrium
(B) Frictional disequilibrium
(C) Structural disequilibrium
(D) Secular disequilibrium

13. What is the most appropriate term for the simultaneous purchase and sale of a foreign currency in different markets to profit from a price discrepancy?
(A) Hedging
(B) Speculation
(C) Arbitrage
(D) Forwarding

14. Consider the following statements regarding trade barriers:
(P) A tariff is a tax on imports.
(Q) A quota is a quantitative restriction on imports.
(R) A Voluntary Export Restraint (VER) is imposed by the exporting country.
(S) An ad valorem tariff is a fixed charge per unit of imported goods.
(T) Sanitary and phytosanitary measures are examples of non-tariff barriers.
Which of the above statement(s) is/are correct?
(A) P, Q, S, and T only
(B) P, R, and T only
(C) Q, S, and T only
(D) P, Q, R, and T only

15. What are Special Drawing Rights (SDRs)?
(A) A supplementary international reserve asset created and maintained by the IMF.
(B) The official currency of the World Bank used for development loans.
(C) Shares held by member countries in the International Finance Corporation.
(D) A type of grant provided by the IMF to low-income countries for poverty reduction.

16. Which of the following pairs is correctly matched?
(A) Linder Hypothesis - Differences in factor endowments
(B) Technology Gap Model - Role of innovation and imitation
(C) Product Life Cycle Theory - Demand for similar quality products
(D) Heckscher-Ohlin Model - Role of economies of scale

17. Given below are two statements:

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other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : The existence of transportation costs can be an obstacle to international trade, even when a comparative advantage exists.
Reason (R) : Transportation costs reduce the potential Bird gains from trade and may even eliminate them if they are sufficiently high.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

52. The term 'Dutch Disease' is used in international economics to describe a situation where:
(A) A country's currency appreciates rapidly, making its exports uncompetitive.
(B) A large discovery of a natural resource leads to a decline in the manufacturing sector.
(C) A country experiences hyperinflation due to excessive printing of money.
(D) A banking crisis in one country spreads to others through contagion.

53. If a country's national income increases, its demand for imports is also likely to increase. This describes which BOP adjustment mechanism?
(A) The price adjustment mechanism.
(B) The monetary approach.
(C) The income adjustment mechanism.
(D) The direct controls mechanism.

54. Consider the following statements regarding the World Trade Organization (WTO):
(P) The WTO was officially established on January 1, 1995.
(Q) The Uruguay Round of GATT negotiations led to the creation of the WTO.
(R) The principle of Most Favored Nation (MFN) is a cornerstone of the WTO.
(S) The WTO's dispute settlement mechanism has binding authority on member countries.
(T) The WTO deals only with trade in goods, not services or intellectual property.
Which of the above statement(s) is/are correct?
(A) P, Q, S, and T only
(B) P, R, and T only
(C) P, Q, R, and S only
(D) Q, R, and S only

55. A 'spot transaction' in the foreign exchange market involves:
(A) An agreement to exchange currencies at a future date at a pre-agreed rate.
(B) The purchase of a currency option.
(C) The immediate exchange of currencies, typically for settlement within two business days.
(D) A currency swap arrangement between two central banks.

56. The Stolper-Samuelson theorem is considered the 'dual' of which other theorem in trade theory?
(A) The Heckscher-Ohlin theorem
(B) The Rybczynski theorem
(C) The Factor Price Equalization theorem
(D) The Leontief Paradox

57. Which of the following is an incorrect statement about the Bretton Woods System?
(A) It established a system of fixed exchange rates.
(B) The US dollar was pegged to gold at $35 per ounce.
(C) It created the International Monetary Fund (IMF) and the World Bank.
(D) It promoted freely floating exchange rates determined by market forces.

58. Intra-industry trade refers to:
(A) The exchange of similar products belonging to the same industry between two countries.
(B) Trade between different industries of the same country.
(C) Trade that occurs only within a regional trade bloc.
(D) Trade that is balanced on an industry-by-industry basis.

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59. The formula for the foreign trade multiplier (k) is given by: $k = 1 / (s + m)$, where 's' is the marginal propensity to save and 'm' is:
(A) The marginal propensity to invest.
(B) The marginal propensity to consume.
(C) The marginal propensity to import.
(D) The marginal propensity to export.

60. Arrange the following forms of economic integration in ascending order of integration (from least to most integrated):

below their domestic price.
4. A quantitative limit on the import of a commodity.

Select the correct answer from the codes given below:
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

26. An improvement in a country's terms of trade means:
(A) The price of its imports has risen relative to the price of its exports.
(B) The price of its exports has risen relative to the price of its imports.
(C) The volume of its exports has increased.
(D) The volume of its imports has decreased.

27. Under a flexible exchange rate system, a surplus in the Balance of Payments will lead to:
(A) A depreciation of the domestic currency.
(B) A decrease in foreign exchange reserves.
(C) Intervention by the central bank to buy foreign currency.
(D) An appreciation of the domestic currency.

28. Consider the following statements about the Stolper-Samuelson theorem:
(P) It deals with the effect of a change in product prices on factor returns.
(Q) It states that opening to trade will raise the return to a country's relatively abundant factor.
(R) It assumes a two-good, two-factor model of trade.
(S) It is a direct corollary of the Rybczynski theorem.

Which of the above statement(s) is/are correct?
(A) P and R only
(B) P, Q, and R only
(C) Q, R, and S only
(D) P and S only

29. An agreement between two or more countries to remove all trade barriers among themselves, but where each country maintains its own external tariff against non-members, is called a:
(A) Customs Union
(B) Common Market
(C) Free Trade Area
(D) Economic Union

30. The primary objective of the World Bank is to:
(A) Provide long-term development assistance and project financing to developing countries.
(B) Provide short-term loans to correct balance of payments disequilibrium.
(C) Promote free trade by reducing tariffs and non-tariff barriers.
(D) Regulate the international monetary system and maintain stable exchange rates.

31. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : Intra-industry trade is common among developed countries with similar factor endowments and technology.
Reason (R) : Intra-industry trade is driven by product differentiation and economies of scale, not by comparative advantage.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

32. The 'J-Curve' effect illustrates that after a currency devaluation:
(A) The trade balance immediately and continuously improves.
(B) The trade balance initially worsens before it improves.
(C) The trade balance immediately improves before it worsens.
(D) The trade balance remains unaffected in the short run but improves in the long run.

33. Which of the following is NOT a function of the foreign exchange market?
(A) Transfer of purchasing power
(B) Provision of credit for international trade
(C) Setting of domestic interest rates
(D) Minimization of exposure to exchange rate risk

34. Consider the following statements concerning the IMF:

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(P) It was established following the Bretton Woods conference in 1944.
(Q) Its primary role is to provide long-term project-based loans for infrastructure.
(R) Member countries' voting rights are broadly determined by their quotas.
(S) It provides policy advice and technical assistance to its members.
(T) The main purpose of SDRs is to serve as a unit of account for the World Bank.
Which of the above statement(s) is/are correct?
(A) P, Q, and S only
(B) P, R, and S only
(C) Q, R, and T only
(D) P, S, and T only

35. The Prebisch-Singer hypothesis suggests that:
(A) The terms of trade for primary commodity exporting countries tend to decline over time.
(B) Developing countries can achieve rapid growth by focusing on import substitution.
(C) The gains from trade are equally distributed between developed and developing nations.
(D) Free trade is always beneficial for all participating countries, regardless of their development level.

36. An incorrect pair regarding types of economic integration is:
(A) Free Trade Area - No internal tariffs, independent external tariffs.
(B) Economic Union - Free movement of factors, independent fiscal policies.
(C) Customs Union - No internal tariffs, common external tariff.
(D) Common Market - Common external tariff, free movement of factors.

37. Given below are two statements:
Statement I : The Rybczynski theorem states that at constant world prices, an increase in the endowment of one factor will lead to a more than proportional increase in the output of the good intensive in that factor.
Statement II : The theorem assumes a context of a small open economy with fixed terms of trade.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

38. A country's 'Real Exchange Rate' is defined as:
(A) The nominal exchange rate adjusted for inflation differentials between countries.
(B) The rate at which the central bank exchanges domestic for foreign currency.
(C) The average of exchange rates against a basket of currencies, weighted by trade shares.
(D) The forward exchange rate for delivery in 90 days.

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39. In the context of the Balance of Payments, what are 'autonomous' transactions?
(A) Transactions undertaken to cover a deficit or surplus in the BOP.
(B) Transactions related to the official reserve account only.
(C) Transactions undertaken for their own sake, independent of the BOP position.
(D) Transactions involving unilateral transfers only.

40. Paul Krugman's model of international trade emphasizes the role of:
(A) Differences in labor productivity.
(B) Differences in factor endowments.
(C) Government intervention and strategic trade policy.
(D) Economies of scale and network effects.

41. What is the effect of an import tariff imposed by a large country?
(A) It will always improve the country's terms of trade.
(B) It has no impact on the world price of the imported good.
(C) It can increase national welfare if terms of trade gains exceed efficiency loss.
(D) It leads to a net welfare gain for the world as a whole.

42. The Leontief Paradox refers to the finding that:
(A) Trade liberalization led to increased unemployment in the US.
(B) The US exported less capital-intensive goods, contrary to the H-O model's prediction.
(C) US terms of trade deteriorated despite its technological leadership.

(D) Capital flows from rich to poor countries were smaller than expected.

43. Which of the following is considered a 'credit' entry in a country's Balance of Payments?
(A) Imports of goods and services.
(B) Purchase of foreign assets.
(C) Gifts sent to foreign residents.
(D) Exports of goods and services.

44. The theory of purchasing power parity (PPP) states that the exchange rate between two currencies is in equilibrium when:
(A) Their domestic purchasing powers at that rate of exchange are equivalent.
(B) The interest rates in the two countries are equal.
(C) The trade balance between the two countries is zero.
(D) The forward exchange rate equals the spot exchange rate.

45. Match the following organizations in List I with their primary function in List II:
List I: (Organization)
P. IMF
Q. WTO
R. World Bank (IBRD)
S. NAFTA
List II: (Function)
1. Facilitating rules of trade between nations.
2. Providing long-term loans for economic development.
3. Maintaining stability in the international monetary system.
4. A regional trade bloc to eliminate trade barriers.
Select the correct answer from the codes given below:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-1, R-3, S-4

46. Predatory dumping is the practice of:
(A) Occasionally selling goods at a lower price abroad to dispose of surplus stock.
(B) Temporarily selling goods at low prices to drive foreign competitors out of business.
(C) Continuously selling goods at a lower price abroad due to persistent cost advantages.
(D) Selling goods abroad at a price higher than the domestic price.

47. The 'elasticity approach' to BOP adjustment focuses on the responsiveness of:
(A) National income to changes in investment.
(B) The demand for money to changes in the interest rate.
(C) Domestic prices to changes in the money supply.
(D) The quantities of imports and exports to changes in the exchange rate.

48. Consider the following statements about the regional trade blocs:
(P) A customs union involves a common external tariff.
(Q) A common market allows for the free movement of labor and capital.
(R) A free trade area is the most integrated form of regional trade bloc.
(S) The European Union is an example of an economic union.
Which of the above statement(s) is/are correct?
(A) P and S only
(B) P, Q, and S only
(C) Q and R only
(D) P, Q, R, and S

49. What does 'hedging' in the foreign exchange market refer to?
(A) Taking an open position in a currency in the hope of making a profit from exchange rate fluctuations.
(B) Borrowing in a low-interest-rate currency and lending in a high-interest-rate currency.
(C) The act of covering a foreign exchange risk.
(D) The process of equalizing prices across different currency markets.

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50. The concept of 'Reciprocal Demand' was introduced into the theory of international trade by:
(A) John Stuart Mill
(B) Adam Smith
(C) David Ricardo
(D) Alfred Marshall

51. The following question consists of two statements, one labeled as Assertion (A) and the

CHAPTER 05
International Economics

1. The ability of a country to produce a good using fewer inputs (e.g., hours of labor) per unit of output than another country is known as:
(A) Comparative Advantage
(B) Absolute Advantage
(C) Factor Endowment
(D) Reciprocal Demand

2. Which of the following statements correctly describes a production possibility frontier (PPF)?
(A) It shows the maximum combinations of two goods producible with fixed resources.
(B) It shows the various combinations of two goods a country may choose to import.
(C) It represents specific consumer preferences for different bundles of commodities.
(D) It depicts market equilibrium levels for price and quantity in international trade.

3. According to Adam Smith, international trade is a positive-sum game because:
(A) It encourages countries to specialize based on comparative advantage.
(B) It ensures that factor prices are equalized across all trading nations.
(C) It raises global output via specialization based on absolute advantage.
(D) It promotes protectionist policies to safeguard domestic industries.

4. The Ricardian model of international trade is based on which key concept?
(A) Differences in factor endowments
(B) Economies of scale in production
(C) Imperfect competition among firms
(D) Differences in labor productivity

5. Match the following theories of international trade in List I with their main proponents in List II:
List I: (Theory)
P. Absolute Advantage
Q. Comparative Advantage
R. Factor Proportions Theory
S. Reciprocal Demand
List II: (Proponent)
1. Eli Heckscher and Bertil Ohlin
2. John Stuart Mill
3. Adam Smith
4. David Ricardo
Select the correct answer from the codes given below:
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

6. Which of the following is an incorrect statement regarding the composition of the Balance of Payments (BOP)?
(A) The current account includes trade in goods and services.
(B) Unilateral transfers like gifts and grants are part of the capital account.
(C) The capital account records foreign investments and loans.
(D) Changes in foreign exchange reserves are recorded in the official reserves account.

7. A depreciation of a country's currency is likely to have what effect on its trade balance, assuming other factors remain constant?
(A) It will worsen the trade balance by making imports cheaper.
(B) It will improve the trade balance by making exports more expensive.
(C) It will have no effect on the trade balance.
(D) It will improve the trade balance by making exports cheaper for foreigners.

8. Consider the following statements about the gains from trade:
(P) Gains from trade arise from specialization in production.
(Q) Increased market size leading to economies of scale is a dynamic gain from trade.
(R) Gains from trade are always distributed

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(P) Common Market
(Q) Customs Union
(R) Economic Union
(S) Free Trade Area
Select the correct sequence from the options below:
(A) S, Q, P, R
(B) Q, S, P, R
(C) S, P, Q, R
(D) Q, P, S, R

61. Linder's hypothesis suggests that trade in manufactured goods is most intense between countries with similar:
(A) Factor endowments
(B) Per capita income levels
(C) Political systems
(D) Per capita income levels

62. A key assumption of the Ricardian model is that labor is:
(A) Perfectly mobile between countries but immobile between sectors.
(B) Perfectly mobile between sectors within a country but immobile between countries.
(C) Perfectly mobile both between sectors and between countries.
(D) Perfectly immobile both between sectors and between countries.

63. Which account in the Balance of Payments is considered the balancing or settling account?
(A) Current account
(B) Capital account
(C) Official reserves account
(D) Unilateral transfers account

64. If the exchange rate between the Indian Rupee (INR) and the US Dollar (USD) changes from 75 INR/USD to 80 INR/USD, it implies:
(A) An appreciation of the INR.
(B) A depreciation of the INR.
(C) A revaluation of the INR.
(D) A depreciation of the INR.

65. Match the following trade policy instruments in List I with their descriptions in List II:
List I: (Instrument)
P. Voluntary Export Restraint (VER)
Q. Anti-dumping duty
R. Export Subsidy
S. Ad Valorem Tariff
List II: (Description)
1. A payment by the government to a firm that ships a good abroad.
2. A tariff levied to counteract the selling of goods at unfairly low prices.
3. A self-imposed limit on exports by an exporting country.
4. A tax on imports calculated as a percentage of their value.
Select the correct answer from the codes given below:
(A) P-4, Q-1, R-2, S-3
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

66. The monetary approach to the Balance of Payments posits that a BOP disequilibrium is primarily a:
(A) Real phenomenon related to trade elasticities.
(B) Monetary phenomenon related to an imbalance between the demand for and supply of money.
(C) Structural phenomenon related to factor endowments.
(D) Fiscal phenomenon related to government budget deficits.

67. The Factor Price Equalization theorem predicts that, under certain assumptions, free trade in goods will lead to the equalization of:
(A) Product prices and factor returns between countries.
(B) Only product prices between countries.
(C) Only factor returns (wages, rent) between countries.
(D) Only factor returns (wages, rent) between countries.

68. Consider the following statements about Vernon's Product Life Cycle Theory:
(P) It suggests a product goes through stages: new, maturing, and standardized.
(Q) In the 'new product' stage, production is located in the innovating (developed) country.
(R) In the 'standardized product' stage, production often shifts to developing countries.

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Statement I : The Marshall-Lerner condition states that for a currency devaluation to improve the balance of payments, the sum of the price elasticities of demand for exports and imports must be greater than one.
Statement II : A devaluation makes a country's exports cheaper and its imports more expensive.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

18. A tourist from the USA finds that a hotel room in Delhi costs Rs. 8000. The exchange rate is Rs. 80. The same quality room in New York costs $150. Based on this information, how does the real exchange rate compare to the nominal exchange rate in terms of hotel rooms?
(A) The purchasing power of the dollar is higher in India.
(B) The purchasing power of the dollar is lower in India.
(C) The purchasing power is exactly the same as predicted by absolute PPP.
(D) The nominal and real exchange rates are identical.

19. The foreign trade multiplier is conceptually based on which economic theory?
(A) The classical theory of full employment
(B) The monetarist theory of money supply
(C) The Keynesian theory of aggregate demand
(D) The real business cycle theory

20. Arrange the following GATT/WTO rounds in chronological order of their commencement:
(P) Kennedy Round
(Q) Uruguay Round
(R) Doha Round
(S) Tokyo Round
Select the correct sequence from the options below:
(A) P, S, Q, R
(B) S, P, R, Q
(C) P, Q, S, R
(D) Q, S, P, R

21. The offer curve of a country shows:
(A) The supply of a country's exports for different levels of domestic demand.
(B) The demand for a country's imports for different levels of domestic supply.
(C) The quantity of export good a country offers for a quantity of its import good.
(D) The different combinations of two goods that can be produced domestically.

22. Which statement regarding trade under imperfect competition is correct?
(A) It excludes the possibility of intra-industry trade.
(B) It can explain trade between similar countries in similar goods.
(C) It suggests that trade is only driven by comparative advantage.
(D) It assumes that firms are price-takers in the international market.

23. A deficit in the Balance of Payments can be financed by all of the following methods ExCEPT:
(A) Drawing down official foreign exchange reserves.
(B) Borrowing from foreign central banks.
(C) Seeking assistance from the IMF.
(D) Revaluation of the domestic currency.

24. What does the theory of Uncovered Interest Parity (UIP) suggest?
(A) Rate differentials equal the expected change in exchange rates between currencies.
(B) The forward exchange rate is an unbiased predictor of the future spot rate.
(C) The interest rate differential is offset by the premium on the forward rate.
(D) Identical goods in different countries should cost the same in one currency.

25. Match the following concepts in List I with their descriptions in List II:
List I: (Concept)
P. Dumping
Q. Quota
R. Terms of Trade
S. Trade Multiplier
List II: (Description)
1. The ratio of a country's export prices to its import prices.
2. The effect of a change in exports or imports on national income.
3. Selling goods in a foreign market at a price

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77. Which of the following is an example of a non-tariff barrier (NTB)?
(A) A standard ad valorem tax applied to foreign vehicle imports.
(B) A specific monetary tax levied per ton of imported structural steel.
(C) A protective duty levied on diverse imported agricultural products.
(D) A regulatory procedure requiring complex and costly electronic testing.

78. Given below are two statements:
Statement I : The Heckscher-Ohlin model assumes that technology is the same across countries.
Statement II : The Ricardian model assumes that technology differs across countries.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

79. A 'forward premium' on a currency exists when:
(A) The spot exchange rate is higher than the forward exchange rate.
(B) The spot and forward rates are equal.
(C) The forward exchange rate is higher than the spot exchange rate.
(D) The currency is expected to depreciate in the future.

80. In the context of the IBRD (World Bank), which type of lending is its primary focus?
(A) Project and program-based lending for long-term development.
(B) Short-term stabilization loans.
(C) Emergency relief funds.
(D) Trade financing and export credits.

81. A 'Common Market' is a more advanced stage of economic integration than a customs union because it adds which feature?
(A) The adoption of a shared common currency.
(B) Harmonization of fiscal and monetary policies.
(C) A centralized common political executive body.
(D) Free movement of factor inputs labor and capital.

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82. The 'opportunity cost' theory of international trade, which uses the production possibility curve, was developed by:
(A) David Ricardo
(B) Gottfried Haberler
(C) Bertil Ohlin
(D) Wassily Leontief

83. 'Errors and Omissions' in the Balance of Payments statement is a residual item that serves to:
(A) Record illegal transactions.
(B) Account for unilateral transfers.
(C) Ensure the account balances to zero.
(D) Represent the profits of multinational corporations.

84. The 'Effective Exchange Rate' of a currency is:
(A) The official rate set by the government.
(B) The black market exchange rate.
(C) The exchange rate adjusted for inflation.
(D) A weighted average of its exchange rates against a basket of other major currencies.

85. Match the following concepts in List I with their associated terms in List II:
List I: (Concept)
P. Marshall-Lerner Condition
Q. Prebisch-Singer Hypothesis
R. Leontief Paradox
S. Stolper-Samuelson Theorem
List II: (Associated Term)
1. Income distribution effects of trade
2. Test of the H-O Model
3. Secular decline in terms of trade
4. Price elasticity of demand for exports and imports
Select the correct answer from the codes given below:
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-4, Q-2, R-3, S-1
(D) P-1, Q-3, R-2, S-4

86. A government's use of quotas to restrict imports is likely to cause what outcome in the domestic market?
(A) A decrease in the price of the imported good and an increase in domestic production.
(B) An increase in the price of the imported good and an increase in domestic production.

(C) An increase in the price of the imported good and a decrease in domestic production.
(D) A decrease in the price of the imported good and a decrease in domestic production.

87. Which of the following is NOT an 'accommodating' transaction in the Balance of Payments?
(A) Sale of gold from monetary reserves.
(B) Borrowing from the IMF.
(C) Use of SDRs to settle a deficit.
(D) Export of merchandise to a foreign country.

88. Consider the following statements related to gains from international trade:
(P) Static gains result from the reallocation of resources according to comparative advantage.
(Q) Increased market size leading to economies of scale is a dynamic gain from trade.
(R) Gains from trade are solely measured by the increase in consumer surplus.
(S) A country that does not trade cannot consume outside its production possibility frontier.
Which of the above statement(s) is/are correct?
(A) P, Q, and S only
(B) P and R only
(C) Q, R, and S only
(D) P, Q, R, and S

89. Posner's 'technology gap' model argues that a significant portion of international trade is based on:
(A) The different levels of capital per worker across countries.
(B) The overlapping demand structures between trading nations.
(C) The invention-imitation time lag between trading partners.
(D) The strategic interaction between oligopolistic firms.

90. The GATT was originally intended to be part of a larger post-war economic framework that included the IMF and which other proposed organization that never came into being?
(A) The International Trade Organization (ITO)
(B) The World Economic Forum (WEF)
(C) The Organisation for Economic Co-operation and Development (OECD)
(D) The United Nations Conference on Trade and Development (UNCTAD)

91. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : Under a fixed exchange rate regime, a country's central bank must intervene in the foreign exchange market to maintain the pegged rate.
Reason (R) : In a fixed exchange rate system, monetary policy becomes ineffective for domestic stabilization as it must be dedicated to maintaining the exchange rate.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

92. The Income Terms of Trade are calculated as:
(A) $\left(\frac{\text{Price of Imports}}{\text{Price of Exports}}\right) \times \text{Quantity of Imports}$
(B) $\left(\frac{\text{Quantity of Imports}}{\text{Quantity of Exports}}\right)$
(C) $\left(\frac{\text{Price of Exports}}{\text{Price of Imports}}\right)$
(D) $\left(\frac{\text{Price of Exports}}{\text{Price of Imports)}}\right) \times \text{Quantity of Exports}$

93. A currency is said to be 'overvalued' under a Purchasing Power Parity framework when:
(A) It can purchase more foreign goods than domestic goods.
(B) The nominal exchange rate is higher than the real exchange rate.
(C) It can purchase fewer foreign goods than domestic goods.
(D) The domestic inflation rate is lower than the foreign inflation rate.

94. Consider the following statements regarding the main pillars or agreements of the WTO:
(P) General Agreement on Tariffs and Trade (GATT)
(Q) General Agreement on Trade in Services (GATS)
(R) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

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(S) Agreement on Trade-Related Investment Measures (TRIMS)
(T) Bretton Woods Agreement (BWA)
Which of the above statement(s) is/are correct?
(A) P, Q, and R only
(B) P, Q, R, and S only
(C) Q, R, S, and T only
(D) All of the above

95. In the context of BOP adjustment, devaluation works best when:
(A) The Marshall-Lerner condition is satisfied.
(B) The demand for both exports and imports is highly inelastic.
(C) The country is at full employment and cannot easily shift resources.
(D) The country has a fixed exchange rate system.

96. An incorrect pair regarding the Balance of Payments is:
(A) Merchandise Exports - Credit in Current Account
(B) Interest payment on foreign loan - Credit in Current Account
(C) Foreign Direct Investment in the country - Credit in Capital Account
(D) Repayment of foreign loan principal - Debit in Capital Account

97. Given below are two statements:
Statement I : A tariff and a quota that lead to the same level of imports are not equivalent in their welfare effects if domestic production is monopolistic.
Statement II : A monopolist producer facing a quota can exert more market power and charge a higher price than one facing an equivalent tariff.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

98. The 'gravity model' of international trade predicts that trade volume between two countries is positively related to their economic size (GDP) and negatively related to:
(A) Their per capita income.
(B) The geographical distance between them.
(C) Their level of technological development.
(D) Their population size.

99. Which international body is often referred to as the 'lender of last resort' for countries facing acute balance of payments crises?
(A) The World Bank
(B) The World Trade Organization
(C) The International Monetary Fund
(D) The Bank for International Settlements

100. Arrange the following events in chronological order:
(P) Establishment of the World Trade Organization (WTO).
(Q) The collapse of the Bretton Woods System.
(R) The conclusion of the Uruguay Round of GATT.
(S) The Bretton Woods Conference.
Select the correct sequence from the options below:
(A) S, Q, R, P
(B) S, R, Q, P
(C) Q, S, P, R
(D) R, P, S, Q

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101. What is the fundamental difference between a customs union and a free trade area?
(A) The presence of a common currency.
(B) The free movement of labor.
(C) The harmonization of tax policies.
(D) The existence of a common external tariff.

102. Sporadic dumping refers to:
(A) The continuous sale of a product in a foreign market at a price below cost.
(B) The occasional sale of a product at a lower price in a foreign market to unload an unforeseen surplus.
(C) The sale of a product at a low price to eliminate competitors and create a monopoly.
(D) The sale of a product in a foreign market that is banned in the domestic market.

103. If country A can produce 10 units of wheat or 5 units of cloth with one unit of labor, and country B can produce 6 units of wheat or 4 units of cloth with one unit of labor, which statement is true?
(A) Country A has a comparative advantage in cloth.

exchange rate movements.
(D) Borrowing from a low-interest-rate country to invest in a high-interest-rate country.

136. Which of the following is NOT an argument for a flexible exchange rate system?
(A) It provides for continuous adjustment in the balance of payments.
(B) It reduces uncertainty for international traders and investors.
(C) It enhances the effectiveness of domestic monetary policy.
(D) It insulates the domestic economy from external shocks.

137. Given below are two statements:
Statement I : A tariff imposed by a small country will be fully borne by its domestic consumers.
Statement II : A small country is a price-taker in the world market and cannot influence its terms of trade.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

138. The value of the foreign trade multiplier decreases when:
(A) The sum of MPS and MPM increases.
(B) The marginal propensity to save (MPS) decreases.
(C) The marginal propensity to import (MPM) decreases.
(D) Exports increase.

139. In a country's Balance of Payments, foreign aid received is recorded as a:
(A) Debit in the current account.
(B) Credit in the capital account.
(C) Credit in the current account (as a unilateral transfer).
(D) Debit in the capital account.

140. Arrange the following trade theories in their correct historical order of appearance:
(P) Heckscher-Ohlin Theory
(Q) Product Life Cycle Theory
(R) Theory of Absolute Advantage
(S) Theory of Comparative Advantage
Select the correct sequence from the options below:
(A) R, S, P, Q
(B) S, R, P, Q
(C) R, P, S, Q
(D) S, P, R, Q

141. The 'Law of One Price' is the underlying principle for which theory of exchange rate determination?
(A) Interest Rate Parity
(B) Monetary Approach
(C) Balance of Payments Approach
(D) Purchasing Power Parity

142. The main purpose of an 'anti-dumping' duty is to:
(A) Raise government revenue.
(B) Offset the injurious effect of imports being sold at unfairly low prices.
(C) Protect domestic consumers from low-quality imports.
(D) Encourage domestic firms to become more competitive.

143. An Economic Union represents the highest form of economic integration and involves all the features of a common market plus:
(A) A common defense policy.
(B) The establishment of a supranational parliament.
(C) The harmonization of economic policies and a common currency.
(D) The adoption of a single language for trade.

144. In the Balance of Payments accounting, which of the following is recorded as a debit?
(A) Sale of domestic bonds to a foreigner.
(B) Receipt of dividends from a foreign investment.
(C) Export of software services.
(D) A domestic resident's vacation in a foreign country.

145. Match the following terms in List I with their descriptions in List II:
List I: (Term)
P. Spot Rate
Q. Forward Rate
R. Hedging
S. Speculation

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other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : Devaluation of a currency may not immediately improve the trade balance, a phenomenon known as the J-curve effect.
Reason (R) : In the short run, import and export volumes are inelastic, so the higher cost of imports outweighs the gain from cheaper exports.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

112. The Heckscher-Ohlin trade model differs from the Ricardian model because the H-O model emphasizes differences in _____ as the basis for trade.
(A) labor productivity
(B) factor endowments
(C) technology
(D) demand patterns

113. Which concept is central to the 'monetary approach' to the Balance of Payments?
(A) The elasticity of demand for tradable goods.
(B) The terms of trade.
(C) The demand for and supply of money.
(D) The marginal propensity to save.

114. Consider the following statements regarding different forms of economic integration:
(P) A Free Trade Area removes tariffs among members but allows each to have its own tariffs for non-members.
(Q) A Customs Union is a Free Trade Area plus a common external tariff.
(R) A Common Market is a Customs Union plus free movement of capital and labor.
(S) An Economic Union is a Common Market plus harmonization of major economic policies.
(T) NAFTA is an example of a Common Market.
Which of the above statement(s) is/are correct?
(A) P, Q, R, and S only
(B) P, Q, and R only
(C) Q, R, S, and T only
(D) P, Q, S, and T only

115. A 'forward contract' in the foreign exchange market is best described as:
(A) An obligation to buy or sell a specified amount of currency at a pre-agreed rate on a future date.
(B) The obligation to purchase or sell a specified currency at the current market spot rate.
(C) The right, but not the obligation, to buy or sell a currency at a pre-set future date.
(D) A standard loan that is denominated in a specific foreign currency for trade purposes.

116. The concept of 'immiserizing growth', introduced by Jagdish Bhagwati, describes a situation where:
(A) Economic growth is concentrated in a few sectors, leading to increased income inequality.
(B) Economic growth leads to such a severe deterioration in a country's terms of trade that it becomes worse off.
(C) A country's reliance on foreign aid stifles domestic economic development.
(D) Growth based on import substitution proves to be inefficient and unsustainable.

117. Given below are two statements:
Statement I : The World Bank group consists of IBRD and IDA.
Statement II : IBRD provides loans to middle-income countries, while IDA provides interest-free loans or grants to the poorest countries.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

118. In the context of the BOP, if a US citizen buys shares in a company listed on the Bombay Stock Exchange, this transaction will be recorded in India's BOP as:
(A) A credit in the current account.
(B) A credit in the capital account.
(C) A debit in the current account.
(D) A debit in the capital account.

119. A key difference between a specific tariff and an ad valorem tariff is that:
(A) A specific tariff provides a more stable degree of protection during periods of

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153. A sudden and significant outflow of foreign portfolio investment from a country is often referred to as:
(A) Capital deepening.
(B) Capital rationing.
(C) Capital flight.
(D) Capital appreciation.

154. Consider the following statements concerning tariffs and quotas:
(P) Both tariffs and quotas raise the domestic price of the imported good.
(Q) A tariff always generates revenue for the government, whereas a quota may not.
(R) Quotas are more transparent and easier to administer than tariffs.
(S) With a tariff, the government revenue is the 'quota rent'.
(T) Under perfect competition, a tariff and an equivalent quota have identical welfare effects for the importing country.
Which of the above statement(s) is/are incorrect?
(A) R and S only
(B) P and T only
(C) Q, R, and S only
(D) R, S, and T only

155. The 'Agreement on Agriculture' (AoA) of the WTO deals with all the following areas ExCEPT:
(A) Labor standards in agriculture
(B) Market Access
(C) Export Subsidies
(D) Domestic Support

156. The Net Barter Terms of Trade is expressed as:
(A) $\left(\frac{\text{Index of Export Quantity}}{\text{Index of Import Quantity}}\right) \times 100$
(B) $\left(\frac{\text{Index of Export Price}}{\text{Index of Import Price}}\right) \times 100$
(C) $\left(\frac{\text{Index of Import Price}}{\text{Index of Export Price}}\right) \times 100$
(D) $\left(\frac{\text{Index of Export Value}}{\text{Index of Import Value}}\right) \times 100$

157. Given below are two statements:
Statement I : According to the theory of comparative advantage, trade is a zero-sum game.
Statement II : A country must have an absolute advantage in at least one good to benefit from trade.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

158. The balance on the current account is equal to:
(A) The balance of trade + net unilateral transfers.
(B) The balance of trade + net services + net unilateral transfers.
(C) The balance of trade + net capital flows.
(D) Exports - Imports + FDI.

159. A tariff that is designed to be so high that it chokes off all imports of a particular good is known as a:
(A) Optimal tariff
(B) Revenue tariff
(C) Prohibitive tariff
(D) Protective tariff

160. Which institution was created at the Bretton Woods conference to promote a stable international monetary system?
(A) The World Trade Organization (WTO)
(B) The United Nations (UN)
(C) The Bank for International Settlements (BIS)
(D) The International Monetary Fund (IMF)

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161. In a two-country, two-good model, the terms of trade will lie between the two countries' domestic opportunity cost ratios. This principle is related to the concept of:
(A) Absolute advantage
(B) Reciprocal demand
(C) The Leontief paradox
(D) Immiserizing growth

162. A Voluntary Export Restraint (VER) is a trade barrier where the:
(A) Exporting country 'voluntarily' agrees to limit its exports.
(B) Importing country sets a quota on imports.
(C) Importing country government requires importers to 'voluntarily' reduce purchases.
(D) Consumers in the importing country 'voluntarily' boycott foreign goods.

(Q) Structural disequilibrium is caused by long-term changes in the economy, such as a shift in demand away from a country's major export.
(R) A fundamental disequilibrium is a large and persistent deficit or surplus.
(S) All BOP disequilibria are self-correcting without government intervention.
Which of the above statement(s) is/are correct?
(A) P and R only
(B) P, Q, and R only
(C) Q and S only
(D) P, Q, R, and S

129. The main difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) is:
(A) FDI is long-term, while FPI is short-term.
(B) FDI is recorded in the current account, while FPI is in the capital account.
(C) FDI involves gaining a significant degree of control or influence over a foreign enterprise, while FPI does not.
(D) FDI is only for new projects ('greenfield'), while FPI is for existing assets.

130. The 'Most Favored Nation' (MFN) principle means that:
(A) Any trade concession or advantage granted by one WTO member to another must be extended to all other WTO members.
(B) A country should give preferential treatment to its closest political allies.
(C) Developing countries receive special and differential treatment.
(D) A country's own domestic goods should be favored over imports.

131. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : The World Bank provides long-term loans for development projects.
Reason (R) : The primary mandate of the World Bank is to address short-term balance of payments crises.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

132. 'Trade diversion' is a potential negative consequence of forming a customs union because it:
(A) Encourages trade with more efficient non-member countries.
(B) Shifts purchase from a low-cost external producer to a high-cost producer within the trade union.
(C) Leads to a reduction in tariffs for all trading partners.
(D) Creates new trade flows between member countries that did not exist before.

133. The 'absorption approach' formula, $Y = C + I + G + (x - M)$, can be restated as $B = Y - A$, where B is the trade balance and A is:
(A) Aggregate supply
(B) Autonomous spending
(C) Domestic absorption $(C + I + G)$
(D) Aggregate investment

134. Consider the following statements regarding international trade theories:
(P) The Ricardian model is based on a single factor of production: labor.
(Q) The Heckscher-Ohlin model explains trade based on differences in factor endowments.
(R) The Product Life Cycle theory suggests that the location of production changes as a product matures.
(S) The Leontief paradox confirmed the predictions of the Heckscher-Ohlin model for the US.
(T) Intra-industry trade is explained by product differentiation and economies of scale.
Which of the above statement(s) is/are correct?
(A) P, Q, R, and S only
(B) Q, R, S, and T only
(C) P, Q, R, and T only
(D) P, R, S, and T only

135. What does the term 'arbitrage' mean in the context of foreign exchange markets?
(A) Making a risk-free profit from price discrepancies in different markets.
(B) Taking a risk by betting on the future direction of a currency.
(C) Taking action to protect against future

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(B) Country B has an absolute advantage in both goods.
(C) Country B has a comparative advantage in cloth.
(D) No basis for trade exists between the two countries.

104. The 'Trade-Related Investment Measures' (TRIMS) agreement of the WTO aims to:
(A) The regulation of international flows of private and public capital.
(B) Protection of foreign direct investment against state expropriation.
(C) Harmonization of intellectual property rights across member nations.
(D) Restriction of trade-distorting conditions such as local content rules.

105. Match List I with List II while preserving the correct definitions for international trade terms:
List I: (Trade Term)
P. Offer Curve
Q. Immiserizing Growth
R. Optimum Tariff
S. Infant Industry Argument
List II: (Meaning)
1. A tariff rate that maximizes a country's welfare.
2. The case where export-biased growth can worsen a country's terms of trade so much that it becomes worse off.
3. The argument for temporarily protecting new industries.
4. Shows a country's willingness to trade at every possible terms of trade.
Select the correct answer from the codes given below:
(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-2, R-4, S-3

106. A deficit in a country's current account must be offset by:
(A) A surplus in its trade in goods account.
(B) A surplus in its capital and financial account.
(C) An increase in its official reserves.
(D) A currency revaluation.

107. Which of the following is an incorrect statement regarding the functions of the IMF?
(A) It promotes international monetary cooperation.
(B) It facilitates the expansion and balanced growth of international trade.
(C) It provides long-term loans for infrastructure projects in poor countries.
(D) It provides temporary financial assistance to countries to ease balance of payments adjustment.

108. Consider the following statements about the theory of comparative advantage:
(P) It was propounded by David Ricardo.
(Q) It suggests that trade can be mutually beneficial even if one country has an absolute advantage in all goods.
(R) It is based on differences in opportunity costs between countries.
(S) It assumes perfect labor mobility between countries.
Which of the above statement(s) is/are correct?
(A) P, Q, and S only
(B) P, Q, and R only
(C) Q and S only
(D) P and R only

109. If the Interest Rate Parity (IRP) holds, it means that:
(A) All countries will have the same nominal interest rate.
(B) The real interest rate is the same in all countries.
(C) The forward premium or discount on a currency is approximately equal to the interest rate differential between the two countries.
(D) The exchange rate will not fluctuate.

110. The 'snake in the tunnel' was a European arrangement in the 1970s that aimed to:
(A) Limit exchange rate fluctuations among member currencies.
(B) Create a single European currency.
(C) Establish a customs union.
(D) Harmonize fiscal policies across Europe.

111. The following question consists of two statements, one labeled as Assertion (A) and the

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List II: (Description)
1. Taking on risk to profit from exchange rate changes.
2. Taking steps to avoid risk from exchange rate changes.
3. Exchange rate for a transaction to be settled in the future.
4. Exchange rate for immediate currency delivery.

Select the correct answer from the codes given below:
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-3, Q-4, R-2, S-1

146. A primary criticism of the infant industry argument is that:
(A) It is difficult to identify which industries will become competitive.
(B) All of the above.
(C) Protection, once granted, is often difficult to remove.
(D) Direct subsidies are often a more efficient way to support infant industries than tariffs.

147. What does the Heckscher-Ohlin theory predict about the pattern of trade?
(A) Countries export goods that use their relatively scarce factors intensively.
(B) Countries with similar technologies will not trade.
(C) Countries export goods that use their relatively abundant factors intensively.
(D) Trade is primarily driven by differences in labor productivity.

148. Consider the following statements about the World Bank Group:
(P) The IBRD provides loans to governments of middle-income and creditworthy low-income countries.
(Q) The IDA provides interest-free loans and grants to governments of the poorest countries.
(R) The IFC is the private sector lending arm of the World Bank Group.
(S) MIGA provides political risk insurance (guarantees) to investors and lenders.

Which of the above statement(s) is/are correct?
(A) P and Q only
(B) P, Q, and R only
(C) Q, R, and S only
(D) P, Q, R, and S

149. The 'expenditure-switching' effect of a devaluation refers to its ability to:
(A) Switch domestic and foreign spending away from foreign goods and towards domestic goods.
(B) Switch domestic spending from consumption to investment.
(C) Reduce overall domestic expenditure (absorption).
(D) Increase government expenditure on social welfare.

150. A dirty float or managed float exchange rate regime is one where:
(A) The exchange rate is fixed by the government.
(B) The exchange rate is primarily market-determined, but the central bank intervenes to influence it.
(C) The exchange rate is determined purely by market forces.
(D) The exchange rate is pegged to a basket of currencies.

151. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : The formation of a Regional Trade Bloc, such as a customs union, may not always increase global welfare.
Reason (R) : The welfare-reducing effect of trade diversion can sometimes outweigh the welfare-enhancing effect of trade creation.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

152. Which of the following is NOT an analytical tool used in international trade theory?
(A) Production Possibility Frontier
(B) Phillips Curve
(C) Community Indifference Curve
(D) Offer Curve

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changing import prices.
(B) A specific tariff is a quantitative restriction, whereas an ad valorem tariff is a tax.
(C) An ad valorem tariff provides a more stable degree of protection during periods of changing import prices.
(D) An ad valorem tariff is easier to administer when products are not standardized.

120. Which theory suggests that countries with similar standards of living will trade more with each other in differentiated manufactured goods?
(A) The Heckscher-Ohlin Theory
(B) The Ricardian Theory
(C) The Stolper-Samuelson Theorem
(D) The Linder Hypothesis

121. The Triffin Dilemma was a problem associated with which monetary system?
(A) The Gold Standard
(B) The European Monetary System
(C) The Bretton Woods System
(D) The current system of floating exchange rates

122. Under the General Agreement on Trade in Services (GATS), 'Mode 1: Cross-border supply' refers to:
(A) A consumer from one country moving to another to obtain a service.
(B) Services delivered from one country territory into another via electronic or postal means.
(C) A service supplier setting up a commercial presence in another country.
(D) Individuals from one country traveling to another to provide a service.

123. A depreciation of the domestic currency will have the most positive impact on the trade balance when:
(A) Both export and import demand are price inelastic.
(B) Export demand is elastic, and import demand is inelastic.
(C) Export demand is inelastic, and import demand is elastic.
(D) Both export and import demand are price elastic.

124. The Rybczynski theorem demonstrates the effect of a change in _____ on _____.
(A) factor endowments; outputs of goods
(B) commodity prices; factor prices
(C) tariffs; national welfare
(D) technology; trade patterns

125. Match the following agreements/rounds in List I with their key outcomes in List II:
List I: (Agreement/Round)
P. Uruguay Round
Q. TRIPS Agreement
R. GATS Agreement
S. Doha Round
List II: (Key Outcome)
1. First multilateral agreement covering trade in services.
2. Known as the 'Development Round', but faced stalemates.
3. Led to the creation of the WTO.
4. Set minimum standards for intellectual property protection.
Select the correct answer from the codes given below:
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

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126. Which of the following is NOT a valid argument for trade protectionism?
(A) The infant industry argument.
(B) The need to maintain a Balance of Payments surplus under all conditions.
(C) The national defense argument.
(D) The argument for strategic trade policy to support key industries.

127. If the exchange rate is quoted as EUR/USD 1.10, it means:
(A) 1 US Dollar costs 1.10 Euros.
(B) 1 Euro costs 0.909 US Dollars.
(C) The exchange rate is fixed by the European Central Bank.
(D) 1 Euro costs 1.10 US Dollars.

128. Consider the following statements about Balance of Payments disequilibrium:
(P) Cyclical disequilibrium arises from business cycles at different times in different countries.

163. Suppose a laptop costs $1000 in the US and the exchange rate is ₹80/$. According to the absolute version of PPP, what should be the price of the same laptop in India?
(A) ₹75,000
(B) ₹90,000
(C) ₹80,000
(D) Cannot be determined without inflation data.

164. The 'Single Factoral Terms of Trade' adjusts the Net Barter Terms of Trade for changes in:
(A) The volume of imports.
(B) Foreign exchange rates.
(C) The level of tariffs.
(D) The productivity of a country's export sector.

165. Match the following regional blocs in List I with their type of integration in List II:
List I: (Regional Bloc)
P. NAFTA (now USMCA)
Q. European Union (EU)
R. MERCOSUR
S. ASEAN
List II: (Type of Integration)
1. Primarily a Free Trade Area
2. Economic and Monetary Union
3. Stated goal of becoming a Common Market
4. Customs Union
Select the correct answer from the codes given below:
(A) P-1, Q-2, R-4, S-1
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-1, R-3, S-4
(D) P-4, Q-2, R-1, S-3

166. A country experiencing a fundamental disequilibrium in its Balance of Payments under the Bretton Woods system was expected to:
(A) Allow its currency to float freely.
(B) Devalue or revalue its currency with IMF approval.
(C) Impose high tariffs on all imports.
(D) Exit the system and adopt the gold standard.

167. Which trade theory best explains the phenomenon of a country being a major exporter and importer of the same product, such as automobiles?
(A) Ricardian theory of comparative advantage.
(B) Heckscher-Ohlin theory.
(C) Stolper-Samuelson theorem.
(D) Theory of trade under imperfect competition (intra-industry trade).

168. Consider the following statements about the Balance of Payments:
(P) It is a systematic record of all economic transactions between residents of a country and the rest of the world.
(Q) It always balances in an accounting sense.
(R) A current account deficit implies the country is a net borrower from the rest of the world.
(S) A surplus in the BOP means a country's central bank has sold foreign currency.
Which of the above statement(s) is/are correct?
(A) P, Q, and R only
(B) P and R only
(C) Q, R, and S only
(D) P, Q, R, and S

169. 'Speculation' in the foreign exchange market is the act of:
(A) Covering an open position to avoid risk.
(B) Buying a currency low in one market and selling it high in another simultaneously.
(C) Taking a position (buying or selling a currency) with the expectation of making a profit from future price movements.
(D) Using a forward contract to lock in an exchange rate.

170. The Uruguay Round of multilateral trade negotiations is significant because it:
(A) Led to the creation of the World Trade Organization.
(B) Was the first round to address agricultural trade.
(C) Focused exclusively on reducing tariffs on manufactured goods.
(D) Established the gold standard.

171. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : The Stolper-Samuelson theorem states that opening up to international trade will increase the return to a country's relatively abundant factor and decrease the return to its relatively scarce factor.

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(C) To ensure that the borrowing country implements economic reforms to correct its BOP problem.
(D) To promote the political interests of the IMF's largest shareholders.

210. The concept that trade is driven by differences in demand structures, with countries exporting goods for which they have a large domestic market, is central to:
(A) The Linder Hypothesis.
(B) The Technology Gap model.
(C) The Rybczynski Theorem.
(D) The Ricardian Model.

211. What is the most likely effect of an import quota on the domestic price of a good and the quantity of imports?
(A) Price decreases, quantity decreases.
(B) Price increases, quantity increases.
(C) Price decreases, quantity increases.
(D) Price increases, quantity decreases.

212. Which statement about the GATT is incorrect?
(A) It was a multilateral agreement, not an organization.
(B) It had a binding dispute settlement mechanism similar to the WTO's.
(C) Its main objective was to reduce trade barriers.
(D) It was replaced by the WTO in 1995.

213. The Interest Rate Parity condition links interest rates, spot exchange rates, and:
(A) Inflation rates.
(B) Forward exchange rates.
(C) Forward exchange rates.
(D) Government budget deficits.

214. If a country's terms of trade improve, it means that:
(A) It must export more units to buy the same amount of imports.
(B) Its export prices have fallen.
(C) Its import prices have risen.
(D) It can export fewer units to buy the same amount of imports.

215. The 'absorption approach' implies that a currency devaluation will improve the trade balance only if:
(A) The country's output rises relative to its domestic absorption.
(B) The Marshall-Lerner condition holds.
(C) The country is at full employment.
(D) Interest rates are allowed to fall.

216. The World Bank primarily provides:
(A) Short-term liquidity to central banks.
(B) Long-term loans for reconstruction and development.
(C) Political risk insurance to multinational corporations.
(D) A forum for negotiating trade agreements.

217. In the Ricardian model, the pattern of trade is determined by:
(A) Absolute advantage.
(B) Comparative advantage.
(C) Factor endowments.
(D) Economies of scale.

218. The GATS (General Agreement on Trade in Services) covers all of the following modes of supply ExCEPT:
(A) Government procurement of services for its own use
(B) Consumption abroad
(C) Commercial presence
(D) Cross-border trade

219. A current account surplus implies that:
(A) A country is consuming more than it is producing.
(B) A country's imports are greater than its exports.
(C) A country is a net lender to the rest of the world.
(D) A country's foreign liabilities are increasing.

220. The Leontief paradox challenged which trade theory?
(A) The theory of absolute advantage
(B) The theory of reciprocal demand
(C) The product life cycle theory
(D) The Heckscher-Ohlin theory

221. 'Trade diversion' is considered a negative outcome of a regional trade agreement because it leads to:
(A) A shift in production from a low-cost domestic producer to a high-cost foreign

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(B) Finance government budget deficits.
(C) Provide development aid to poor countries.
(D) Facilitate payments between countries with different currencies.

181. The community indifference curve is a tool used in trade theory to represent:
(A) The production capabilities of a country.
(B) The different combinations of exports and imports a country is willing to trade.
(C) The preferences and welfare of a country as a whole.
(D) The income distribution within a country.

182. Which of the following is NOT a form of non-tariff barrier?
(A) Ad valorem duty
(B) Import quota
(C) Technical standards and health regulations
(D) Voluntary export restraint

183. If a country imposes a tariff on its imports, how does this affect the 'trade multiplier'?
(A) The multiplier becomes larger because imports decrease.
(B) The multiplier remains unchanged as it only depends on saving.
(C) A tariff has an indeterminate effect on the multiplier.
(D) The multiplier becomes smaller because the marginal propensity to import acts as a larger leakage from the income stream.

184. The establishment of the IMF and the World Bank took place at which famous conference?
(A) The Bretton Woods Conference
(B) The Yalta Conference
(C) The San Francisco Conference
(D) The Versailles Conference

185. Match the following concepts in List I with their brief explanations in List II:
List I: (Concept)
P. Exchange Rate
Q. Balance of Payments
R. Tariff
S. Dumping
List II: (Brief Explanation)
1. A tax imposed on imported goods.
2. Selling goods in a foreign market at a price below domestic price or production cost.
3. The price of one currency in terms of another.
4. A summary statement of a country's economic transactions with the rest of the world.
Select the correct answer from the codes given below:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-3, R-1, S-2
(D) P-3, Q-4, R-1, S-2

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186. According to the relative version of Purchasing Power Parity, the change in the exchange rate should be equal to:
(A) The differential in interest rates between two countries.
(B) The differential in inflation rates between two countries.
(C) The growth rate of the trade deficit.
(D) The change in foreign exchange reserves.

187. Trade creation occurs when:
(A) A country in a customs union imports a product from a high-cost producer within the union.
(B) A country in a customs union shifts from a high-cost domestic producer to a low-cost producer within the union.
(C) A country imposes a tariff that creates a new domestic industry.
(D) A country in a customs union shifts from a high-cost domestic producer to a low-cost producer within the union.

188. Consider the following statements about the Heckscher-Ohlin model:
(P) It assumes that technology is identical across countries.
(Q) It predicts that trade will equalize the prices of factors (labor, capital) across countries.
(R) It explains trade based on differences in relative factor endowments.
(S) It provides the theoretical foundation for the Leontief Paradox.
Which of the above statement(s) is/are correct?
(A) P, Q, and S only
(B) Q and R only
(C) P, Q, and R only
(D) P and S only

community indifference curve, which represents the nation's aggregate preferences. This autarkic equilibrium establishes a pre-trade price ratio. The basis for international trade arises when this domestic price ratio differs between countries, signaling differences in comparative advantage and creating an incentive for specialization and trade to achieve consumption levels beyond their individual PPFs.

Based on the above source, attempt the following five questions.

252. In the context of international trade theory, a state of autarky implies that a country's consumption point:

(A) must be on its Production Possibility Frontier.

(B) lies outside its Production Possibility Frontier.

(C) is determined solely by global price ratios.

(D) is independent of its production capabilities.

Direction : Please read the following source carefully.

International trade analysis is fundamentally grounded in a set of basic concepts and analytical tools that illustrate the potential for mutual gains from exchange. A cornerstone of this analysis is the Production Possibility Frontier (PPF), a graphical representation that delineates the maximum combinations of two goods a country can produce with its available resources and technology. The shape of the PPF, typically concave to the origin, reflects the principle of increasing opportunity cost. This means that as a country produces more of one good, it must give up progressively larger amounts of the other. The slope of the PPF at any given point represents the marginal rate of transformation (MRT), indicating the opportunity cost of one good in terms of the other. In a state of autarky, or no trade, a country's production and consumption are limited to a point on its own PPF. The specific point is determined by the tangency of the PPF with the highest attainable community indifference curve, which represents the nation's aggregate preferences. This autarkic equilibrium establishes a pre-trade price ratio. The basis for international trade arises when this domestic price ratio differs between countries, signaling differences in comparative advantage and creating an incentive for specialization and trade to achieve consumption levels beyond their individual PPFs.

Based on the above source, attempt the following five questions.

253. According to the passage, the fundamental incentive for a country to engage in international trade is created by:

(A) an excess of aggregate supply over aggregate demand in the domestic market.

(B) the government's policy to accumulate foreign exchange reserves.

(C) a difference between its domestic price ratio and the price ratios of other countries.

(D) a desire to achieve absolute advantage in the production of all goods.

Direction : Please read the following source carefully.

International trade analysis is fundamentally grounded in a set of basic concepts and analytical tools that illustrate the potential for mutual gains from exchange. A cornerstone of this analysis is the Production Possibility Frontier (PPF), a graphical representation that delineates the maximum combinations of two goods a country can produce with its available resources and technology. The shape of the PPF, typically concave to the origin, reflects the principle of increasing opportunity cost. This means that as a country produces more of one good, it must give up progressively larger amounts of the other. The slope of the PPF at any given point represents the marginal rate of transformation (MRT), indicating the opportunity cost of one good in terms of the other. In a state of autarky, or no trade, a country's production and consumption are limited to a point on its own PPF. The specific point is determined by the tangency of the PPF with the highest attainable community indifference curve, which represents the nation's aggregate preferences. This autarkic equilibrium establishes a pre-trade price ratio. The basis for international trade arises when this domestic price ratio differs between countries, signaling differences in comparative advantage and creating an incentive for specialization and trade to achieve consumption levels beyond their individual PPFs.

Based on the above source, attempt the following five questions.

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199. The Marshall-Lerner condition is relevant for analyzing the effectiveness of:
(A) Monetary policy in an open economy.
(B) Fiscal policy in a closed economy.
(C) Currency devaluation/depreciation on the trade balance.
(D) Tariffs in protecting infant industries.

200. Arrange the following in the chronological order of their establishment:
(P) World Trade Organization (WTO)
(Q) European Economic Community (EEC)
(R) International Monetary Fund (IMF)
(S) North American Free Trade Agreement (NAFTA)
Select the correct sequence from the options below:
(A) R, Q, S, P
(B) Q, R, S, P
(C) R, S, Q, P
(D) Q, S, R, P

201. Which of the following is NOT a characteristic of trade under monopolistic competition?
(A) Product differentiation
(B) Homogeneous products
(C) Economies of scale
(D) Intra-industry trade

202. The balance of payments of a country is a systematic record of:
(A) All economic transactions between its residents and residents of other countries during a period.
(B) All transactions between the government and the public in a year.
(C) The flow of goods and services between the country and the rest of the world.
(D) The stock of capital and financial assets of a country at a point in time.

203. Devaluation of a currency aims to improve the trade balance by:
(A) Making exports costlier in foreign currency and imports cheaper in domestic currency.
(B) Reducing the domestic money supply.
(C) Making exports cheaper in foreign currency and imports costlier in domestic currency.
(D) Increasing domestic interest rates.

204. Which theory argues that a nation's competitive advantage in an industry can be created or enhanced through government policy?
(A) The Heckscher-Ohlin theory
(B) The theory of absolute advantage
(C) The Ricardian theory
(D) The strategic trade policy theory

205. The 'beggar-thy-neighbor' policy refers to a country trying to solve its domestic unemployment problems by:
(A) Promoting free trade and international cooperation.
(B) Increasing its imports and reducing its exports.
(C) Implementing protectionist measures like tariffs and competitive devaluation.
(D) Providing foreign aid to its neighbors.

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206. A key difference between a tariff and a quota is that the tariff provides revenue to the government, while the economic rent from a quota goes to:
(A) Domestic consumers.
(B) The holder of the import license.
(C) Foreign producers.
(D) The government of the exporting country.

207. Which of the following regional blocs is a customs union with a common external tariff?
(A) NAFTA (USMCA)
(B) APEC
(C) SAFTA
(D) MERCOSUR

208. The 'official reserve account' in the BOP records:
(A) The transactions of a country's central bank in foreign assets.
(B) The total value of a country's gold holdings.
(C) The amount of foreign aid received by a country.
(D) The earnings of a country's residents working abroad.

209. What is the primary purpose of IMF conditionality?
(A) To ensure that the borrowing country uses the funds for specific infrastructure projects.
(B) To ensure that the borrowing country implements economic reforms to correct its BOP problem.

(A) A higher multiplier effect.
(B) No change in the multiplier.
(C) A lower multiplier effect.
(D) An indeterminate change in the multiplier.

234. The IBRD and IDA are two major institutions belonging to the:
(A) International Monetary Fund
(B) World Trade Organization
(C) United Nations
(D) World Bank Group

235. The practice of using a forward contract to lock in an exchange rate for a future transaction is known as:
(A) Hedging
(B) Arbitrage
(C) Speculation
(D) Spot trading

236. The Rybczynski theorem predicts that if a country's endowment of one factor increases, the output of the good intensive in that factor will:
(A) Decrease.
(B) Increase by a greater proportion.
(C) Increase by the same proportion.
(D) Remain unchanged.

237. The 'green box', 'blue box', and 'amber box' are categories of domestic subsidies under which WTO agreement?
(A) GATS
(B) TRIPS
(C) Agreement on Agriculture (AoA)
(D) TRIMS

238. If the sum of the elasticities of demand for exports and imports is less than one, a currency devaluation will:
(A) Improve the trade balance.
(B) Leave the trade balance unchanged.
(C) Improve the capital account.
(D) Worsen the trade balance.

239. The most basic form of economic integration, involving the removal of tariffs among member countries, is the:
(A) Free Trade Area
(B) Customs Union
(C) Common Market
(D) Economic Union

240. The IMF's Special Drawing Rights (SDR) are a reserve asset whose value is based on:
(A) The price of gold.
(B) A basket of major international currencies.
(C) The US dollar only.
(D) The economic output of G7 countries.

241. A 'prohibitive tariff' is one that is:
(A) Set at a level that maximizes government revenue.
(B) Agreed upon in a multilateral trade negotiation.
(C) Applied only to agricultural products.
(D) So high that it eliminates all imports of the good.

242. The Heckscher-Ohlin model of trade assumes all of the following ExCEPT:
(A) Different factor endowments across countries.
(B) Different tastes and preferences across countries.
(C) Identical technology across countries.
(D) Perfect competition in all markets.

243. The J-curve effect describes the short-term tendency for a country's trade balance to _____ following a currency depreciation.
(A) immediately improve
(B) remain unchanged
(C) worsen before improving
(D) improve before worsening

244. Which round of GATT negotiations led to the creation of the WTO?
(A) Kennedy Round
(B) Tokyo Round
(C) Doha Round
(D) Uruguay Round

245. The 'balance of trade' is a component of which larger balance of payments account?
(A) Current Account
(B) Capital Account
(C) Financial Account
(D) Official Reserves Account

246. The main difference between a fixed and a flexible exchange rate system is the role of:

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producer.
(B) An increase in tariffs against non-member countries.
(C) A reduction in global trade efficiency.
(D) A loss of sovereignty for member countries.

222. The term for selling a product in a foreign market at a price below its cost of production is:
(A) Arbitrage
(B) Dumping
(C) Hedging
(D) Speculation

223. Under a flexible exchange rate regime, an increase in demand for a country's exports will lead to:
(A) A depreciation of its currency.
(B) A decrease in its foreign exchange reserves.
(C) An increase in its foreign debt.
(D) An appreciation of its currency.

224. Which of the following is a key function of the International Monetary Fund (IMF)?
(A) Providing short-to-medium term financial assistance to countries with balance of payments problems.
(B) Providing long-term loans for infrastructure projects.
(C) Setting rules for international trade in goods.
(D) Insuring foreign direct investment against political risk.

225. An ad valorem tariff is a tax on imports defined as:
(A) A fixed amount per unit.
(B) A limit on the quantity.
(C) A percentage of the value.
(D) A subsidy to domestic producers.

226. The foreign trade multiplier shows the impact of a change in _____ on _____.
(A) Exports or imports; national income
(B) interest rates; investment
(C) tax rates; government revenue
(D) exchange rates; the trade balance

227. The Stolper-Samuelson theorem states that the opening of trade will harm:
(A) The factor that is relatively abundant.
(B) All factors of production equally.
(C) The owners of capital in all cases.
(D) The factor that is relatively scarce.

228. Which of the following is NOT a form of economic integration?
(A) Free Trade Area
(B) Bilateral Investment Treaty
(C) Customs Union
(D) Monetary Union

229. If a country experiences a period of high inflation relative to its trading partners, under a floating exchange rate system, its currency is expected to:
(A) Appreciate.
(B) Remain stable.
(C) Depreciate.
(D) Be revalued by the central bank.

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230. The principle of 'national treatment' in the WTO means:
(A) Foreign goods must be treated no less favorably than domestically produced goods once they pass customs.
(B) All foreign countries must be treated the same.
(C) Domestic industries should be given preferential treatment.
(D) Countries must treat their citizens as nationals.

231. A debit item in the Balance of Payments is a transaction that:
(A) Leads to a receipt of foreign currency.
(B) Increases the country's foreign exchange reserves.
(C) Represents an export of goods.
(D) Leads to a payment of foreign currency.

232. The main difference between a tariff and a quota is that the tariff provides revenue to the government, while the economic rent from a quota goes to:
(A) Domestic consumers.
(B) The holder of the import license.
(C) Foreign producers.
(D) The government of the exporting country.

233. In the formula for the foreign trade multiplier, $k = \frac{1}{MPS + MPM}$, a higher Marginal Propensity to Import (MPM) leads to:

189. A structural disequilibrium in the Balance of Payments is caused by:
(A) A downturn in the global business cycle.
(B) Speculative capital flows.
(C) Long-term changes in an economy's production or demand structure.
(D) A government's expansionary fiscal policy.

190. What is the main objective of the WTO's TRIPS agreement?
(A) To establish minimum levels of protection for intellectual property rights that all member countries must adhere to.
(B) To eliminate all tariffs on technology products.
(C) To restrict foreign investment in technology-intensive industries.
(D) To regulate international trade in services.

191. The following question consists of two statements, one labeled as Assertion (A) and the other as Reason (R). Select the correct answer using the codes given below:
Assertion (A) : A large country can improve its terms of trade by imposing a tariff.
Reason (R) : A tariff imposed by a large country can lower the world price of its imports, shifting some of the tax burden onto foreign producers.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

192. Which international organization is primarily concerned with providing surveillance over its members' economic policies and providing financial assistance to address balance of payments problems?
(A) World Bank
(B) International Monetary Fund
(C) World Trade Organization
(D) Bank for International Settlements

193. The possibility that export-biased economic growth may result in a country's welfare falling is termed as:
(A) Dutch disease
(B) The Prebisch-Singer hypothesis
(C) Immiserizing growth
(D) The Rybczynski effect

194. Consider the following statements regarding current account transactions in the Balance of Payments:
(P) Export and import of goods
(Q) Export and import of services
(R) Unilateral transfers (gifts, grants)
(S) Foreign Direct Investment (FDI)
(T) Foreign Portfolio Investment (FPI)
Which of the above statement(s) is/are correct?
(A) P and Q only
(B) P, Q, and R only
(C) S and T only
(D) P, Q, S, and T only

195. A 'forward discount' on a currency exists when:
(A) The forward exchange rate is lower than the spot exchange rate.
(B) The spot exchange rate is lower than the forward exchange rate.
(C) The spot and forward rates are equal.
(D) The currency is expected to appreciate in the future.

196. The theory of reciprocal demand, which determines the equilibrium terms of trade, is graphically represented by:
(A) Production possibility frontiers
(B) Offer curves
(C) Indifference curves
(D) Engel curves

197. Given below are two statements:
Statement I : The European Union is an example of an Economic and Monetary Union.
Statement II : All members of the European Union use the Euro as their common currency.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

198. The most significant difference between IBRD and IDA, both parts of the World Bank Group, is their:
(A) Geographical focus.
(B) Lending terms and target countries.
(C) Sectoral focus (e.g., industry vs. agriculture).
(D) Source of funding.

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(A) The World Bank in setting rates.
(B) The central bank in intervening in the currency market.
(C) Gold in backing the currency.
(D) Tariffs and quotas in controlling trade.

247. The gains from trade are fundamentally based on the principle of:
(A) Absolute advantage
(B) Mercantilism
(C) Protectionism
(D) Comparative advantage

248. The Bretton Woods system, established in 1944, was an international monetary system of:
(A) Adjustable peg fixed exchange rates.
(B) Freely floating exchange rates.
(C) A pure gold standard.
(D) A single global currency.

249. Which of the following is an example of a non-tariff barrier to trade?
(A) A 10% tax on the value of imported shoes.
(B) A 5 fee for every barrel of imported oil.
(C) A law requiring all imported fruits to be quarantined for 30 days.
(D) An export subsidy for domestic farmers.

250. The World Bank's primary purpose is to:
(A) Provide development assistance for long-term projects.
(B) Maintain global financial stability.
(C) Promote free trade policies.
(D) Settle international trade disputes.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

251. What does the concave shape of a typical Production Possibility Frontier primarily illustrate?
(A) The principle of diminishing returns to scale.
(B) The principle of increasing opportunity cost.
(C) The existence of constant opportunity costs.
(D) The presence of unemployed resources in an economy.

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Reason (R) : International trade raises the relative price of the exportable good, which is intensive in the abundant factor, thus bidding up the price of that factor.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

172. The difference between the value of a nation's exports of goods and the value of its imports of goods is called the:
(A) Current account balance
(B) Balance of trade
(C) Capital account balance
(D) Balance of payments

173. A 'crawling peg' is an exchange rate system where:
(A) The currency is allowed to float freely within a very wide band.
(B) The currency is pegged to gold.
(C) The pegged exchange rate is adjusted frequently and in small increments.
(D) The exchange rate is fixed permanently.

174. Consider the following statements regarding potential 'dynamic' gains from international trade:
(P) Reallocation of resources to more efficient uses.
(Q) Increased competition leading to lower prices and better quality.
(R) Access to larger markets enabling economies of scale.
(S) Faster diffusion of technology and innovation.
(T) Consumption beyond the domestic production possibility frontier.
Which of the above statement(s) represents dynamic gains?
(A) P and T only
(B) Q, R, and S only
(C) P, Q, R, and S only
(D) All of the above

175. The International Development Association (IDA) is known as the soft loan window of the World Bank because it provides:
(A) Loans with long repayment terms and little to no interest.
(B) Loans specifically for software and technological projects.
(C) Short-term liquidity loans that are simplified to acquire.
(D) Loans that can be repaid using domestic local currency.

176. Which of the following correctly pairs a trade theory with its main assumption?
(A) Ricardian Model - Differences in factor endowments
(B) Product Life Cycle Model - The role of innovation and maturity of products
(C) Heckscher-Ohlin Model - Differences in labor productivity
(D) Linder Hypothesis - Differences in technology

177. Given below are two statements:
Statement I : Under a floating exchange rate system, a Balance of Payments deficit is automatically corrected by currency depreciation.
Statement II : Central bank intervention is required to manage the exchange rate in a purely floating system.
Which of the following is correct?
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

178. The 'quota rent' is the extra profit that accrues to:
(A) The government of the importing country.
(B) The holders of the import licenses.
(C) The domestic producers of the import-competing good.
(D) The domestic consumers of the good.

179. The term 'GATT' stands for:
(A) General Accord on Trade and Tariffs.
(B) Global Agreement on Trade and Tariffs.
(C) General Agreement on Tariffs and Trade.
(D) Global Accord for Tariffs and Trade.

180. A primary function of the foreign exchange market is to:
(A) Set domestic monetary policy.

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254. The marginal rate of transformation (MRT) is best described as:
(A) the slope of a community indifference curve, representing consumer preferences.
(B) the rate at which consumers are willing to substitute one good for another.
(C) the total output produced by an economy using all available resources.
(D) the slope of the PPF, indicating the opportunity cost of production.

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Based on the above source, attempt the following five questions.

255. The point of equilibrium in a closed economy (autarky) is determined by the tangency between which two analytical constructs?
(A) The Production Possibility Frontier and the international terms of trade line.
(B) The community indifference curve and the domestic budget constraint.
(C) The Production Possibility Frontier and a community indifference curve.
(D) The domestic demand curve and the domestic supply curve for a single good.

Direction : Please read the following source carefully.

The theoretical underpinnings of international trade have evolved significantly, moving from classical to neoclassical explanations. The earliest formal theory, Adam Smith's theory of Absolute Advantage, posited that a nation should export goods it can produce using fewer resources (i.e., more efficiently) than its trading partners and import goods that other nations produce more efficiently. This framework, however, could not explain trade between a nation that was more efficient in producing everything and a less efficient one. David Ricardo addressed this limitation with his theory of Comparative Advantage, which remains a cornerstone of trade theory. Ricardo demonstrated that mutually beneficial trade is possible as long as there are differences in relative opportunity costs of production between countries, even if one country has an absolute advantage in all goods. The basis for trade, therefore, shifts from absolute productivity differences to relative productivity differences. Building upon this, the Heckscher-Ohlin (H-O) theory sought to explain the source of these comparative advantages. The H-O model attributes a country's comparative advantage to its relative abundance of factors of production, such as capital and labor. It predicts that a country will export goods that are intensive in its relatively abundant factor and import goods that are intensive in its relatively scarce factor, providing a more detailed explanation for trade patterns.

Based on the above source, attempt the following five questions.

256. According to the theory of Absolute Advantage, a country should engage in trade based on:
(A) its relative factor endowments of capital and labor.
(B) its ability to produce a good with fewer resources than other countries.
(C) differences in opportunity costs with its trading partners.
(D) the principle of equalizing factor prices

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monopolistic competition and economies of scale, address this gap. These modern theories propose that increasing returns to scale, where average costs fall as output increases, can be an independent basis for trade. Even if countries have identical factor endowments and technology, they can gain from specializing in the production of different varieties of a product to exploit economies of scale. This specialization leads to a greater variety of goods available to consumers at potentially lower prices, as firms serve a larger international market. Consequently, trade under imperfect competition is not just driven by comparative advantage but also by the pursuit of scale economies and consumer demand for product variety, explaining the high volume of trade between similar developed nations.

Based on the above source, attempt the following five questions.

261. Models of international trade under imperfect competition were primarily developed to explain the phenomenon of:

(A) trade between developed and developing countries.
(B) the complete specialization of countries in one good.
(C) the decline in global trade volumes.
(D) intra-industry trade.

Direction : Please read the following source carefully.

While classical and neoclassical trade theories, based on perfect competition and constant returns to scale, explain inter-industry trade effectively, they struggle to account for a significant portion of modern global trade. The phenomenon of intra-industry trade, which involves the two-way exchange of similar or differentiated products within the same industry (e.g., the United States exporting and importing automobiles), necessitated new theoretical frameworks. Models of international trade under imperfect competition, particularly those incorporating monopolistic competition and economies of scale, address this gap. These modern theories propose that increasing returns to scale, where average costs fall as output increases, can be an independent basis for trade. Even if countries have identical factor endowments and technology, they can gain from specializing in the production of different varieties of a product to exploit economies of scale. This specialization leads to a greater variety of goods available to consumers at potentially lower prices, as firms serve a larger international market. Consequently, trade under imperfect competition is not just driven by comparative advantage but also by the pursuit of scale economies and consumer demand for product variety, explaining the high volume of trade between similar developed nations.

Based on the above source, attempt the following five questions.

262. According to modern trade theories, what can serve as a basis for trade, independent of comparative advantage?

(A) Constant returns to scale.
(B) Increasing returns to scale.
(C) Identical consumer preferences across countries.
(D) Government-imposed trade barriers.

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Based on the above source, attempt the following five questions.

259. Based on the Heckscher-Ohlin model, a country that is relatively capital-abundant would be expected to:

(A) export labor-intensive goods and import capital-intensive goods.
(B) specialize completely in capital-intensive goods and cease producing labor-intensive goods.
(C) export capital-intensive goods and import labor-intensive goods.
(D) avoid trade with countries that are labor-abundant.

Direction : Please read the following source carefully.

The theoretical underpinnings of international trade have evolved significantly, moving from classical to neoclassical explanations. The earliest formal theory, Adam Smith's theory of Absolute Advantage, posited that a nation should export goods it can produce using fewer resources (i.e., more efficiently) than its trading partners and import goods that other nations produce more efficiently. This framework, however, could not explain trade between a nation that was more efficient in producing everything and a less efficient one. David Ricardo addressed this limitation with his theory of Comparative Advantage, which remains a cornerstone of trade theory. Ricardo demonstrated that mutually beneficial trade is possible as long as there are differences in relative opportunity costs of production between countries, even if one country has an absolute advantage in all goods. The basis for trade, therefore, shifts from absolute productivity differences to relative productivity differences. Building upon this, the Heckscher-Ohlin (H-O) theory sought to explain the source of these comparative advantages. The H-O model attributes a country's comparative advantage to its relative abundance of factors of production, such as capital and labor. It predicts that a country will export goods that are intensive in its relatively abundant factor and import goods that are intensive in its relatively scarce factor, providing a more detailed explanation for trade patterns.

Based on the above source, attempt the following five questions.

260. A key distinction between the Ricardian model and the Heckscher-Ohlin model is that the latter:

(A) identifies the source of comparative advantage.
(B) assumes labor is the only factor of production.
(C) rejects the concept of opportunity cost.
(D) is only applicable under conditions of absolute advantage.

Direction : Please read the following source carefully.

While classical and neoclassical trade theories, based on perfect competition and constant returns to scale, explain inter-industry trade effectively, they struggle to account for a significant portion of modern global trade. The phenomenon of intra-industry trade, which involves the two-way exchange of similar or differentiated products within the same industry (e.g., the United States exporting and importing automobiles), necessitated new theoretical frameworks. Models of international trade under imperfect competition, particularly those incorporating

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(D) there are no gains from trade.

Direction : Please read the following source carefully.

The Balance of Payments (BOP) is a systematic statistical record of all economic transactions between the residents of a country and the rest of the world over a specific period, typically a year. Its composition is crucial for understanding a nation's international economic position. The BOP is primarily divided into two major accounts: the Current Account and the Capital Account (which, in modern usage, is often distinguished from the Financial Account). The Current Account records transactions in goods and services, primary income, and secondary income. Trade in goods is referred to as the 'balance of trade' or 'visible trade', while trade in services (like tourism and software services) is part of 'invisible trade'. Primary income includes earnings from factors of production, such as interest and dividends from foreign investments, and compensation of employees. Secondary income involves one-way transfers, like personal remittances and official grants. The Capital Account (in the narrow sense) records capital transfers and the acquisition/ disposal of non-produced, non-financial assets. The Financial Account details transactions involving financial assets and liabilities, such as foreign direct investment (FDI), portfolio investment, and other investments like loans and currency holdings. Any imbalances are theoretically settled through the official reserves account, and a statistical discrepancy or errors and omissions item is included to ensure the accounts balance.

Based on the above source, attempt the following five questions.

266. Which of the following is recorded as a credit entry in the Current Account of a country's Balance of Payments?

(A) Imports of merchandise.
(B) Earnings from tourism services provided to foreign visitors.
(C) Payments of dividends to foreign investors.
(D) Money sent abroad by resident workers as remittances.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

267. The 'balance of trade' or 'visible trade' specifically refers to the difference between:

(A) the export and import of services.
(B) the export and import of merchandise goods.
(C) total credits and total debits in the Current Account.
(D) foreign direct investment and portfolio investment.

Direction : Please read the following source carefully.

The Balance of Payments (BOP) is a systematic statistical record of all economic transactions between the residents of a country and the rest of the world over a specific period, typically a year.

NODIA

product variety, explaining the high volume of trade between similar developed nations.

Based on the above source, attempt the following five questions.

263. A key benefit for consumers from trade under monopolistic competition is:

(A) a reduction in the number of firms in the market.
(B) guaranteed higher quality for all imported goods.
(C) access to a greater variety of products.
(D) the elimination of differences in domestic and foreign prices.

Direction : Please read the following source carefully.

While classical and neoclassical trade theories, based on perfect competition and constant returns to scale, explain inter-industry trade effectively, they struggle to account for a significant portion of modern global trade. The phenomenon of intra-industry trade, which involves the two-way exchange of similar or differentiated products within the same industry (e.g., the United States exporting and importing automobiles), necessitated new theoretical frameworks. Models of international trade under imperfect competition, particularly those incorporating monopolistic competition and economies of scale, address this gap. These modern theories propose that increasing returns to scale, where average costs fall as output increases, can be an independent basis for trade. Even if countries have identical factor endowments and technology, they can gain from specializing in the production of different varieties of a product to exploit economies of scale. This specialization leads to a greater variety of goods available to consumers at potentially lower prices, as firms serve a larger international market. Consequently, trade under imperfect competition is not just driven by comparative advantage but also by the pursuit of scale economies and consumer demand for product variety, explaining the high volume of trade between similar developed nations.

Based on the above source, attempt the following five questions.

264. Which of the following scenarios is a clear example of intra-industry trade?

(A) India exporting textiles to the UK and importing machinery from the UK.
(B) Brazil exporting coffee to the world and importing electronics.
(C) A country exporting all its manufactured goods and importing all its agricultural products.
(D) Germany exporting BMW cars to Japan and importing Toyota cars from Japan.

Direction : Please read the following source carefully.

While classical and neoclassical trade theories, based on perfect competition and constant returns to scale, explain inter-industry trade effectively, they struggle to account for a significant portion of modern global trade. The phenomenon of intra-industry trade, which involves the two-way exchange of similar or differentiated products within the same industry (e.g., the United States exporting and importing automobiles), necessitated new theoretical frameworks. Models of international trade under imperfect competition, particularly those incorporating monopolistic competition and economies of scale, address this gap. These modern theories propose that increasing returns to scale, where average costs fall as output increases, can be an independent basis for trade. Even if countries have identical factor endowments and technology, they can gain from specializing in the production of different varieties of a product to exploit economies of scale. This specialization leads to a greater variety of goods available to consumers at potentially lower prices, as firms serve a larger international market. Consequently, trade under imperfect competition is not just driven by comparative advantage but also by the pursuit of scale economies and consumer demand for product variety, explaining the high volume of trade between similar developed nations.

Based on the above source, attempt the following five questions.

265. In contrast to classical trade models, modern theories incorporating imperfect competition assume that:

(A) average costs of production can fall as output increases.
(B) markets are perfectly competitive.
(C) goods are homogeneous.

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Primary income includes earnings from factors of production, such as interest and dividends from foreign investments, and compensation of employees. Secondary income involves one-way transfers, like personal remittances and official grants. The Capital Account (in the narrow sense) records capital transfers and the acquisition/ disposal of non-produced, non-financial assets. The Financial Account details transactions involving financial assets and liabilities, such as foreign direct investment (FDI), portfolio investment, and other investments like loans and currency holdings. Any imbalances are theoretically settled through the official reserves account, and a statistical discrepancy or errors and omissions item is included to ensure the accounts balance.

Based on the above source, attempt the following five questions.

270. The purpose of the 'errors and omissions' item in the Balance of Payments statement is to:

(A) represent illegal transactions between residents and non-residents.

(B) record the changes in the country's official foreign exchange reserves.

(C) detail the one-way transfers like foreign aid and grants.

(D) account for statistical discrepancies to ensure the total debits equal total credits.

Direction : Please read the following source carefully.

A disequilibrium in the Balance of Payments (BOP) occurs when autonomous receipts do not equal autonomous payments, leading to a persistent deficit or surplus. Addressing a BOP disequilibrium, particularly a deficit, requires implementing specific adjustment mechanisms. These mechanisms are broadly explained by three major theoretical approaches. The elasticity approach focuses on the role of relative price changes, primarily through exchange rate devaluation or depreciation. It posits that for a devaluation to improve the trade balance, the sum of the price elasticities of demand for exports and imports must be greater than one, a condition known as the Marshall-Lerner condition. The absorption approach, on the other hand, views the trade balance as the difference between national income (Y) and domestic absorption (A), where A is consumption plus investment plus government spending. According to this view, a deficit can only be corrected if national income rises relative to domestic absorption, or if absorption is reduced. Devaluation works only if it increases income or reduces absorption. Lastly, the monetary approach treats the BOP as an essentially monetary phenomenon, arguing that a deficit is a result of an excess supply of money in the domestic economy. Adjustment is seen as an automatic process where the excess money flows out, correcting the imbalance without the need for exchange rate changes.

Based on the above source, attempt the following five questions.

271. According to the elasticity approach, a currency devaluation will successfully improve a country's trade balance if:

(A) the demand for both exports and imports is perfectly inelastic.

(B) domestic absorption increases significantly.

(C) the Marshall-Lerner condition is met.

(D) the domestic money supply is expanding.

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Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

268. In the modern composition of the Balance of Payments, Foreign Direct Investment (FDI) is recorded under the:
(A) Financial Account.
(B) Current Account.
(C) Capital Account.
(D) Errors and Omissions.

Direction : Please read the following source carefully.

The Balance of Payments (BOP) is a systematic statistical record of all economic transactions between the residents of a country and the rest of the world over a specific period, typically a year. Its composition is crucial for understanding a nation's international economic position. The BOP is primarily divided into two major accounts: the Current Account and the Capital Account (which, in modern usage, is often distinguished from the Financial Account). The Current Account records transactions in goods and services, primary income, and secondary income. Trade in goods is referred to as the 'balance of trade' or 'visible trade', while trade in services (like tourism and software services) is part of 'invisible trade'. Primary income includes earnings from factors of production, such as interest and dividends from foreign investments, and compensation of employees. Secondary income involves one-way transfers, like personal remittances and official grants. The Capital Account (in the narrow sense) records capital transfers and the acquisition/ disposal of non-produced, non-financial assets. The Financial Account details transactions involving financial assets and liabilities, such as foreign direct investment (FDI), portfolio investment, and other investments like loans and currency holdings. Any imbalances are theoretically settled through the official reserves account, and a statistical discrepancy or errors and omissions item is included to ensure the accounts balance.

Based on the above source, attempt the following five questions.

269. The 'invisible trade' in the Balance of Payments encompasses transactions related to:
(A) merchandise goods only.
(B) only foreign direct investment.
(C) services, primary income, and secondary income.
(D) smuggled goods that are not officially recorded.

Direction : Please read the following source carefully.

The Balance of Payments (BOP) is a systematic statistical record of all economic transactions between the residents of a country and the rest of the world over a specific period, typically a year. Its composition is crucial for understanding a nation's international economic position. The BOP is primarily divided into two major accounts: the Current Account and the Capital Account (which, in modern usage, is often distinguished from the Financial Account). The Current Account records transactions in goods and services, primary income, and secondary income. Trade in goods is referred to as the 'balance of trade' or 'visible trade', while trade in services (like tourism and software services) is part of 'invisible trade'.

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(A) reduce domestic spending relative to national income.
(B) increase the money supply to stimulate the economy.
(C) ensure that the Marshall-Lerner condition holds.
(D) devalue the currency regardless of domestic spending.

Direction : Please read the following source carefully.

A disequilibrium in the Balance of Payments (BOP) occurs when autonomous receipts do not equal autonomous payments, leading to a persistent deficit or surplus. Addressing a BOP disequilibrium, particularly a deficit, requires implementing specific adjustment mechanisms. These mechanisms are broadly explained by three major theoretical approaches. The elasticity approach focuses on the role of relative price changes, primarily through exchange rate devaluation or depreciation. It posits that for a devaluation to improve the trade balance, the sum of the price elasticities of demand for exports and imports must be greater than one, a condition known as the Marshall-Lerner condition. The absorption approach, on the other hand, views the trade balance as the difference between national income (Y) and domestic absorption (A), where A is consumption plus investment plus government spending. According to this view, a deficit can only be corrected if national income rises relative to domestic absorption, or if absorption is reduced. Devaluation works only if it increases income or reduces absorption. Lastly, the monetary approach treats the BOP as an essentially monetary phenomenon, arguing that a deficit is a result of an excess supply of money in the domestic economy. Adjustment is seen as an automatic process where the excess money flows out, correcting the imbalance without the need for exchange rate changes.

Based on the above source, attempt the following five questions.

275. The Marshall-Lerner condition is concerned with the responsiveness of trade flows to changes in:
(A) national income levels.
(B) domestic interest rates.
(C) relative prices.
(D) factor endowments.

NODIA

Direction : Please read the following source carefully.

The exchange rate, the price of one country's currency in terms of another, is a critical variable in international economics. A fundamental distinction is made between the nominal exchange rate and the real exchange rate. The nominal exchange rate is the quoted rate of exchange between two currencies, whereas the real exchange rate adjusts the nominal rate for differences in price levels between the two countries, thus reflecting the relative purchasing power and competitiveness of a nation's goods. Various theories attempt to explain the determination of exchange rates. One of the most prominent is the Purchasing Power Parity (PPP) theory, which suggests that in the long run, the exchange rate between two currencies should move towards the rate that would equalize the prices of an identical basket of goods and services in each country. The absolute version of PPP states that the exchange rate should equal the ratio of the price levels, while the relative version suggests that the percentage change in the exchange rate should offset the difference in inflation rates between the two countries. Exchange rate regimes can be broadly categorized as fixed, where the rate is pegged by the monetary authority, or floating, where it is determined by market forces of supply and demand in the foreign exchange market.

Based on the above source, attempt the following five questions.

276. What does the real exchange rate measure that the nominal exchange rate does not?
(A) The relative price of goods and services between two countries.
(B) The daily fluctuations in the currency market.
(C) The interest rate differential between two countries.
(D) The official government-set value of a currency.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

272. The absorption approach to BOP adjustment defines the trade balance as the difference between:
(A) total exports and total imports of services.
(B) national income and domestic absorption.
(C) autonomous receipts and autonomous payments.
(D) the supply of and demand for money.

Direction : Please read the following source carefully.

A disequilibrium in the Balance of Payments (BOP) occurs when autonomous receipts do not equal autonomous payments, leading to a persistent deficit or surplus. Addressing a BOP disequilibrium, particularly a deficit, requires implementing specific adjustment mechanisms. These mechanisms are broadly explained by three major theoretical approaches. The elasticity approach focuses on the role of relative price changes, primarily through exchange rate devaluation or depreciation. It posits that for a devaluation to improve the trade balance, the sum of the price elasticities of demand for exports and imports must be greater than one, a condition known as the Marshall-Lerner condition. The absorption approach, on the other hand, views the trade balance as the difference between national income (Y) and domestic absorption (A), where A is consumption plus investment plus government spending. According to this view, a deficit can only be corrected if national income rises relative to domestic absorption, or if absorption is reduced. Devaluation works only if it increases income or reduces absorption. Lastly, the monetary approach treats the BOP as an essentially monetary phenomenon, arguing that a deficit is a result of an excess supply of money in the domestic economy. Adjustment is seen as an automatic process where the excess money flows out, correcting the imbalance without the need for exchange rate changes.

Based on the above source, attempt the following five questions.

273. Which adjustment mechanism views a Balance of Payments deficit primarily as a consequence of an excess supply of domestic money?
(A) The elasticity approach.
(B) The absorption approach.
(C) The Keynesian multiplier approach.
(D) The monetary approach.

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Based on the above source, attempt the following five questions.

274. A key policy prescription derived from the absorption approach to correct a BOP deficit would be to:

through trade.

Direction : Please read the following source carefully.

The theoretical underpinnings of international trade have evolved significantly, moving from classical to neoclassical explanations. The earliest formal theory, Adam Smith's theory of Absolute Advantage, posited that a nation should export goods it can produce using fewer resources (i.e., more efficiently) than its trading partners and import goods that other nations produce more efficiently. This framework, however, could not explain trade between a nation that was more efficient in producing everything and a less efficient one. David Ricardo addressed this limitation with his theory of Comparative Advantage, which remains a cornerstone of trade theory. Ricardo demonstrated that mutually beneficial trade is possible as long as there are differences in relative opportunity costs of production between countries, even if one country has an absolute advantage in all goods. The basis for trade, therefore, shifts from absolute productivity differences to relative productivity differences. Building upon this, the Heckscher-Ohlin (H-O) theory sought to explain the source of these comparative advantages. The H-O model attributes a country's comparative advantage to its relative abundance of factors of production, such as capital and labor. It predicts that a country will export goods that are intensive in its relatively abundant factor and import goods that are intensive in its relatively scarce factor, providing a more detailed explanation for trade patterns.

Based on the above source, attempt the following five questions.

257. What is the critical condition for mutually beneficial trade to occur according to David Ricardo's theory of Comparative Advantage?

(A) One country must have an absolute advantage in the production of all goods.
(B) Both countries must have similar factor endowments.
(C) The countries must be at similar levels of technological development.
(D) There must be a difference in the relative opportunity costs of production.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

258. The Heckscher-Ohlin theory explains the pattern of international trade by focusing on differences in:

(A) national factor endowments.
(B) national labor productivity.
(C) absolute production costs.
(D) government trade policies.

Direction : Please read the following source carefully.

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distinction is made between the nominal exchange rate and the real exchange rate. The nominal exchange rate is the quoted rate of exchange between two currencies, whereas the real exchange rate adjusts the nominal rate for differences in price levels between the two countries, thus reflecting the relative purchasing power and competitiveness of a nation's goods. Various theories attempt to explain the determination of exchange rates. One of the most prominent is the Purchasing Power Parity (PPP) theory, which suggests that in the long run, the exchange rate between two currencies should move towards the rate that would equalize the prices of an identical basket of goods and services in each country. The absolute version of PPP states that the exchange rate should equal the ratio of the price levels, while the relative version suggests that the percentage change in the exchange rate should offset the difference in inflation rates between the two countries. Exchange rate regimes can be broadly categorized as fixed, where the rate is pegged by the monetary authority, or floating, where it is determined by market forces of supply and demand in the foreign exchange market.

Based on the above source, attempt the following five questions.

277. The relative version of the Purchasing Power Parity theory posits that the change in the exchange rate between two countries is determined by the:

(A) difference in their economic growth rates.
(B) difference in their interest rates.
(C) volume of trade between them.
(D) difference in their inflation rates.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

278. According to the absolute version of the Purchasing Power Parity theory, if a basket of goods costs $150 in the US and €100 in the Eurozone, the equilibrium exchange rate should be:

(A) $1 = €1.50
(B) €1 = $1.50
(C) €1 = $0.67
(D) $1 = €0.67

Direction : Please read the following source carefully.

The exchange rate, the price of one country's currency in terms of another, is a critical variable in international economics. A fundamental distinction is made between the nominal exchange rate and the real exchange rate. The nominal exchange rate is the quoted rate of exchange between two currencies, whereas the real exchange rate adjusts the nominal rate for differences in price levels between the two countries, thus reflecting the relative purchasing power and competitiveness of a nation's goods. Various theories attempt to explain the determination of exchange rates. One of the most prominent is the Purchasing Power Parity (PPP) theory, which suggests that in the long run, the exchange rate between two currencies should move towards the rate that would equalize the prices of an identical basket of goods and services in each country. The absolute version of PPP states that the exchange rate should equal the ratio of the

NODIA

293. A quantitative limit on the amount of a specific commodity that can be imported into a country is known as a:
(A) tariff.
(B) subsidy.
(C) voluntary export restraint.
(D) quota.

Direction : Please read the following source carefully.

Despite the theoretical benefits of free trade, nations often employ trade barriers to protect domestic industries. These barriers can be broadly classified as tariff and non-tariff barriers. A tariff is a tax imposed on imported goods, which can be 'ad valorem' (a percentage of the good's value) or 'specific' (a fixed amount per unit). Tariffs raise the domestic price of imported goods, which benefits domestic producers by making them more competitive, but harms domestic consumers who face higher prices and reduced consumption. They also generate revenue for the government. Non-tariff barriers (NTBs) encompass a wide array of protectionist measures other than tariffs. Common NTBs include quotas, which are quantitative limits on the amount of a good that can be imported; voluntary export restraints (VERs), where an exporting country voluntarily limits its exports; and various administrative and technical barriers, such as stringent safety or sanitary standards. Another controversial trade practice is dumping, which occurs when a firm sells a product in a foreign market at a price below its domestic price or cost of production. This can be 'predatory' (to drive out competition), 'persistent' (due to price discrimination), or 'sporadic' (to offload surplus stock). In response, importing countries may impose anti-dumping duties to counteract the effects of dumping.

Based on a strict interpretation of the above source, attempt the following five questions.

294. The practice of a company selling its product in an export market for less than it charges in its home market is defined as:
(A) arbitrage.
(B) dumping.
(C) hedging.
(D) specialization.

Direction : Please read the following source carefully.

Despite the theoretical benefits of free trade, nations often employ trade barriers to protect domestic industries. These barriers can be broadly classified as tariff and non-tariff barriers. A tariff is a tax imposed on imported goods, which can be 'ad valorem' (a percentage of the good's value) or 'specific' (a fixed amount per unit). Tariffs raise the domestic price of imported goods, which benefits domestic producers by making them more competitive, but harms domestic consumers who face higher prices and reduced consumption. They also generate revenue for the government. Non-tariff barriers (NTBs) encompass a wide array of protectionist measures other than tariffs. Common NTBs include quotas, which are quantitative limits on the amount of a good that can be imported; voluntary export restraints (VERs), where an exporting country voluntarily limits its exports; and various administrative and technical barriers, such as stringent safety or sanitary standards. Another controversial trade practice is dumping, which occurs when a firm sells a product in a foreign market at a price below its domestic price or cost of production. This can be 'predatory' (to drive out competition), 'persistent' (due to price discrimination), or 'sporadic' (to offload surplus stock). In response, importing countries may impose anti-dumping duties to counteract the effects of dumping.

Based on a strict interpretation of the above source, attempt the following five questions.

295. A 'voluntary export restraint' (VER) is a trade barrier that is imposed by the:
(A) importing country's government through legislation.
(B) World Trade Organization to manage trade flows.
(C) exporting country's government at the request of the importing country.
(D) private firms in the importing country through a cartel.

Direction : Please read the following source carefully.

The post-World War II era saw the establishment of a multilateral framework to govern international trade and finance. The General Agreement on Tariffs and Trade (GATT), signed in 1947, was a legal agreement aimed at substantially reducing

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(A) forward transaction.
(B) spot transaction.
(C) arbitrage transaction.
(D) swap transaction.

Direction : Please read the following source carefully.

The foreign exchange market is the global marketplace for exchanging national currencies. It is characterized by high liquidity and continuous operation. Transactions in this market can be for immediate delivery, known as spot transactions, occurring at the spot exchange rate. Alternatively, they can be for future delivery, known as forward transactions, conducted at a pre-agreed forward exchange rate. The market participants include commercial banks, corporations, central banks, and individuals, who engage in transactions for various purposes. Some participants are hedgers, who use instruments like forward contracts to protect themselves against the risk of adverse movements in exchange rates. For example, an importer with a future payment obligation in a foreign currency can buy that currency forward to lock in a rate. Others are speculators, who intentionally take on exchange rate risk in the hope of profiting from future currency movements. A third key activity is arbitrage, which involves the risk-free exploitation of price discrepancies. Two-point arbitrage involves profiting from a price difference for the same currency in two different markets, while three-point (or triangular) arbitrage involves exploiting a discrepancy in the cross-exchange rates between three currencies to make a riskless profit. Arbitrage ensures that exchange rates are consistent across different financial centers.

Based on the above source, attempt the following five questions.

282. An Indian exporter who expects to receive payment in US dollars in three months and sells those dollars today for future delivery is acting as a:
(A) speculator.
(B) hedger.
(C) arbitrageur.
(D) broker.

Direction : Please read the following source carefully.

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The foreign exchange market is the global marketplace for exchanging national currencies. It is characterized by high liquidity and continuous operation. Transactions in this market can be for immediate delivery, known as spot transactions, occurring at the spot exchange rate. Alternatively, they can be for future delivery, known as forward transactions, conducted at a pre-agreed forward exchange rate. The market participants include commercial banks, corporations, central banks, and individuals, who engage in transactions for various purposes. Some participants are hedgers, who use instruments like forward contracts to protect themselves against the risk of adverse movements in exchange rates. For example, an importer with a future payment obligation in a foreign currency can buy that currency forward to lock in a rate. Others are speculators, who intentionally take on exchange rate risk in the hope of profiting from future currency movements. A third key activity is arbitrage, which involves the risk-free exploitation of price discrepancies. Two-point arbitrage involves profiting from a price difference for the same currency in two different markets, while three-point (or triangular) arbitrage involves exploiting a discrepancy in the cross-exchange rates between three currencies to make a riskless profit. Arbitrage ensures that exchange rates are consistent across different financial centers.

Based on the above source, attempt the following five questions.

283. What is the primary motive of a speculator in the foreign exchange market?
(A) To minimize exposure to exchange rate risk.
(B) To profit from anticipated movements in exchange rates.
(C) To facilitate international trade for a corporate client.
(D) To maintain the stability of a pegged exchange rate.

Direction : Please read the following source carefully.

The foreign exchange market is the global marketplace for exchanging national currencies. It is characterized by high liquidity and continuous operation. Transactions in this market can be for immediate delivery, known as spot transactions, occurring at the spot exchange rate. Alternatively,

price levels, while the relative version suggests that the percentage change in the exchange rate should offset the difference in inflation rates between the two countries. Exchange rate regimes can be broadly categorized as fixed, where the rate is pegged by the monetary authority, or floating, where it is determined by market forces of supply and demand in the foreign exchange market.

Based on the above source, attempt the following five questions.

279. A floating exchange rate regime is one where the value of a currency is determined primarily by:
(A) the central bank's intervention.
(B) an official peg to a commodity like gold.
(C) market forces of supply and demand.
(D) an agreement between trading partner governments.

Direction : Please read the following source carefully.

The exchange rate, the price of one country's currency in terms of another, is a critical variable in international economics. A fundamental distinction is made between the nominal exchange rate and the real exchange rate. The nominal exchange rate is the quoted rate of exchange between two currencies, whereas the real exchange rate adjusts the nominal rate for differences in price levels between the two countries, thus reflecting the relative purchasing power and competitiveness of a nation's goods. Various theories attempt to explain the determination of exchange rates. One of the most prominent is the Purchasing Power Parity (PPP) theory, which suggests that in the long run, the exchange rate between two currencies should move towards the rate that would equalize the prices of an identical basket of goods and services in each country. The absolute version of PPP states that the exchange rate should equal the ratio of the price levels, while the relative version suggests that the percentage change in the exchange rate should offset the difference in inflation rates between the two countries. Exchange rate regimes can be broadly categorized as fixed, where the rate is pegged by the monetary authority, or floating, where it is determined by market forces of supply and demand in the foreign exchange market.

Based on the above source, attempt the following five questions.

280. An increase in a country's domestic price level, with the nominal exchange rate and foreign prices remaining constant, will lead to:
(A) a depreciation of the real exchange rate and a gain in competitiveness.
(B) no change in the real exchange rate or competitiveness.
(C) an automatic adjustment in the nominal exchange rate according to PPP.
(D) an appreciation of the real exchange rate and a loss of competitiveness.

Direction : Please read the following source carefully.

The foreign exchange market is the global marketplace for exchanging national currencies. It is characterized by high liquidity and continuous operation. Transactions in this market can be for immediate delivery, known as spot transactions, occurring at the spot exchange rate. Alternatively, they can be for future delivery, known as forward transactions, conducted at a pre-agreed forward exchange rate. The market participants include commercial banks, corporations, central banks, and individuals, who engage in transactions for various purposes. Some participants are hedgers, who use instruments like forward contracts to protect themselves against the risk of adverse movements in exchange rates. For example, an importer with a future payment obligation in a foreign currency can buy that currency forward to lock in a rate. Others are speculators, who intentionally take on exchange rate risk in the hope of profiting from future currency movements. A third key activity is arbitrage, which involves the risk-free exploitation of price discrepancies. Two-point arbitrage involves profiting from a price difference for the same currency in two different markets, while three-point (or triangular) arbitrage involves exploiting a discrepancy in the cross-exchange rates between three currencies to make a riskless profit. Arbitrage ensures that exchange rates are consistent across different financial centers.

Based on the above source, attempt the following five questions.

281. A transaction in the foreign exchange market that involves an agreement to exchange currencies at a specified future date at a rate agreed upon today is known as a:

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on a country's national income. An increase in exports, for instance, acts as an injection into the circular flow of income, leading to a larger final increase in aggregate income, with the size of the multiplier effect depending on the marginal propensity to save and import.

Based on the above source, attempt the following five questions.

286. The ability of a country to consume a combination of goods beyond its own Production Possibility Frontier is an example of a:
(A) production gain from trade.
(B) dynamic gain from trade.
(C) terms of trade improvement.
(D) consumption gain from trade.

Direction : Please read the following source carefully.

The rationale for engaging in international trade lies in the gains it offers to participating nations. These gains from trade can be categorized as static or dynamic. Static gains arise from the reallocation of existing resources and are typically illustrated using standard trade models. They include production gains, which occur when countries specialize in producing goods in which they have a comparative advantage, leading to a more efficient use of resources and an increase in total world output. They also include consumption gains, which allow a country to consume a combination of goods that lies outside its domestic production possibility frontier. The distribution of these gains is heavily influenced by the terms of trade (TOT), which is the ratio of a country's export prices to its import prices. An improvement in the TOT means a country can acquire more imports for a given quantity of exports. Another key concept is the foreign trade multiplier, which demonstrates how a change in exports or imports can have a magnified impact on a country's national income. An increase in exports, for instance, acts as an injection into the circular flow of income, leading to a larger final increase in aggregate income, with the size of the multiplier effect depending on the marginal propensity to save and import.

Based on the above source, attempt the following five questions.

287. An improvement in a country's terms of trade signifies that:
(A) the volume of its exports has increased.
(B) the price of its imports has risen relative to the price of its exports.
(C) it can purchase more imports for the same amount of exports.
(D) it is exporting more than it is importing.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

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288. The foreign trade multiplier explains the process by which a change in exports or imports leads to a magnified change in:
(A) the terms of trade.
(B) national income.
(C) the exchange rate.
(D) the price level.

Direction : Please read the following source

carefully.

The rationale for engaging in international trade lies in the gains it offers to participating nations. These gains from trade can be categorized as static or dynamic. Static gains arise from the reallocation of existing resources and are typically illustrated using standard trade models. They include production gains, which occur when countries specialize in producing goods in which they have a comparative advantage, leading to a more efficient use of resources and an increase in total world output. They also include consumption gains, which allow a country to consume a combination of goods that lies outside its domestic production possibility frontier. The distribution of these gains is heavily influenced by the terms of trade (TOT), which is the ratio of a country's export prices to its import prices. An improvement in the TOT means a country can acquire more imports for a given quantity of exports. Another key concept is the foreign trade multiplier, which demonstrates how a change in exports or imports can have a magnified impact on a country's national income. An increase in exports, for instance, acts as an injection into the circular flow of income, leading to a larger final increase in aggregate income, with the size of the multiplier effect depending on the marginal propensity to save and import.

Based on the above source, attempt the following five questions.

289. Static gains from trade primarily result from:
(A) the development of new technologies over time.
(B) increased market competition stimulating innovation.
(C) an increase in the rate of capital formation.
(D) the reallocation of a country's existing productive resources.

Direction : Please read the following source carefully.

The rationale for engaging in international trade lies in the gains it offers to participating nations. These gains from trade can be categorized as static or dynamic. Static gains arise from the reallocation of existing resources and are typically illustrated using standard trade models. They include production gains, which occur when countries specialize in producing goods in which they have a comparative advantage, leading to a more efficient use of resources and an increase in total world output. They also include consumption gains, which allow a country to consume a combination of goods that lies outside its domestic production possibility frontier. The distribution of these gains is heavily influenced by the terms of trade (TOT), which is the ratio of a country's export prices to its import prices. An improvement in the TOT means a country can acquire more imports for a given quantity of exports. Another key concept is the foreign trade multiplier, which demonstrates how a change in exports or imports can have a magnified impact on a country's national income. An increase in exports, for instance, acts as an injection into the circular flow of income, leading to a larger final increase in aggregate income, with the size of the multiplier effect depending on the marginal propensity to save and import.

Based on the above source, attempt the following five questions.

290. An increase in exports is considered an injection into the economy's circular flow of income because it:
(A) generates income for domestic producers from a foreign source.
(B) increases the amount of goods available for domestic consumption.
(C) leads to an appreciation of the domestic currency.
(D) reduces the marginal propensity to import.

Direction : Please read the following source carefully.

Despite the theoretical benefits of free trade, nations often employ trade barriers to protect domestic industries. These barriers can be broadly classified as tariff and non-tariff barriers. A tariff is a tax imposed on imported goods, which can be 'ad valorem' (a percentage of the good's value) or 'specific' (a fixed amount per unit). Tariffs raise the domestic price of imported goods, which benefits domestic producers by making them more competitive, but harms domestic consumers who face higher prices and reduced consumption. They also generate revenue for the government. Non-tariff barriers (NTBs) encompass a wide array of protectionist measures other than tariffs. Common NTBs include quotas, which

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are quantitative limits on the amount of a good that can be imported; voluntary export restraints (VERs), where an exporting country voluntarily limits its exports; and various administrative and technical barriers, such as stringent safety or sanitary standards. Another controversial trade practice is dumping, which occurs when a firm sells a product in a foreign market at a price below its domestic price or cost of production. This can be 'predatory' (to drive out competition), 'persistent' (due to price discrimination), or 'sporadic' (to offload surplus stock). In response, importing countries may impose anti-dumping duties to counteract the effects of dumping.

Based on a strict interpretation of the above source, attempt the following five questions.

291. A tariff that is levied as a fixed charge of $10 per barrel of imported oil is an example of a:
(A) ad valorem tariff.
(B) compound tariff.
(C) specific tariff.
(D) voluntary export restraint.

Direction : Please read the following source carefully.

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Based on a strict interpretation of the above source, attempt the following five questions.

292. From the perspective of the importing country, who is most likely to be harmed by the imposition of a tariff on a consumer good?
(A) Domestic consumers of the good.
(B) Domestic producers of the good.
(C) The government of the importing country.
(D) Owners of factors used in the protected industry.

Direction : Please read the following source carefully.

Despite the theoretical benefits of free trade, nations often employ trade barriers to protect domestic industries. These barriers can be broadly classified as tariff and non-tariff barriers. A tariff is a tax imposed on imported goods, which can be 'ad valorem' (a percentage of the good's value) or 'specific' (a fixed amount per unit). Tariffs raise the domestic price of imported goods, which benefits domestic producers by making them more competitive, but harms domestic consumers who face higher prices and reduced consumption. They also generate revenue for the government. Non-tariff barriers (NTBs) encompass a wide array of protectionist measures other than tariffs. Common NTBs include quotas, which are quantitative limits on the amount of a good that can be imported; voluntary export restraints (VERs), where an exporting country voluntarily limits its exports; and various administrative and technical barriers, such as stringent safety or sanitary standards. Another controversial trade practice is dumping, which occurs when a firm sells a product in a foreign market at a price below its domestic price or cost of production. This can be 'predatory' (to drive out competition), 'persistent' (due to price discrimination), or 'sporadic' (to offload surplus stock). In response, importing countries may impose anti-dumping duties to counteract the effects of dumping.

Based on a strict interpretation of the above source, attempt the following five questions.

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once they enter the market). After several rounds of negotiations, the GATT was superseded by the World Trade Organization (WTO) in 1995. The WTO expanded the scope to include trade in services, intellectual property, and established a more robust dispute settlement mechanism. Alongside these global institutions, the world has witnessed a proliferation of Regional Trade Blocs (RTBs), such as free trade areas and customs unions. While RTBs can promote trade among members (trade creation), they may also divert trade away from more efficient non-members (trade diversion). The international financial architecture is supported by the Bretton Woods institutions: the International Monetary Fund (IMF), which focuses on maintaining global financial stability, providing policy advice and financial assistance to countries with balance of payments problems, and the World Bank, which provides financial and technical assistance to developing countries for long-term development projects.

Based on the above source, attempt the following five questions.

298. What was a significant institutional advancement of the World Trade Organization (WTO) over the General Agreement on Tariffs and Trade (GATT)?

(A) The introduction of the Most-Favored-Nation principle.
(B) The establishment of a more effective dispute settlement mechanism.
(C) The first-time inclusion of trade in goods.
(D) The focus on reducing only specific tariffs, not ad valorem tariffs.

Direction : Please read the following source carefully.

The post-World War II era saw the establishment of a multilateral framework to govern international trade and finance. The General Agreement on Tariffs and Trade (GATT), signed in 1947, was a legal agreement aimed at substantially reducing tariffs and other trade barriers. It operated on key principles like non-discrimination, which includes the Most-Favored-Nation (MFN) principle (treating all trading partners equally) and the National Treatment principle (treating imported and locally-produced goods equally once they enter the market). After several rounds of negotiations, the GATT was superseded by the World Trade Organization (WTO) in 1995. The WTO expanded the scope to include trade in services, intellectual property, and established a more robust dispute settlement mechanism. Alongside these global institutions, the world has witnessed a proliferation of Regional Trade Blocs (RTBs), such as free trade areas and customs unions. While RTBs can promote trade among members (trade creation), they may also divert trade away from more efficient non-members (trade diversion). The international financial architecture is supported by the Bretton Woods institutions: the International Monetary Fund (IMF), which focuses on maintaining global financial stability, providing policy advice and financial assistance to countries with balance of payments problems, and the World Bank, which provides financial and technical assistance to developing countries for long-term development projects.

Based on the above source, attempt the following five questions.

299. According to the passage, a potential negative consequence of forming a Regional Trade Bloc is:

(A) trade creation, where members increase trade among themselves.
(B) trade diversion, where trade shifts from efficient non-members to less efficient members.
(C) the requirement to adhere to the MFN principle within the bloc.
(D) the mandatory reduction of all non-tariff barriers to zero.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

296. The principle that requires a WTO member to grant the same trade advantages to all other member countries as it does to its most-favored trading partner is known as:

(A) the National Treatment principle.
(B) the principle of trade creation.
(C) the principle of reciprocity.
(D) the Most-Favored-Nation (MFN) principle.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

297. A primary role of the International Monetary Fund (IMF) as described in the passage is to:

(A) provide financial assistance to countries facing balance of payments difficulties.
(B) fund long-term infrastructure projects in developing nations.
(C) regulate the formation of regional trade blocs.
(D) set global tariff rates on manufactured goods.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

284. The activity of buying a currency in one market and simultaneously selling it in another market to profit from a price differential is called:
(A) two-point arbitrage.
(B) hedging.
(C) speculation.
(D) a forward contract.

Direction : Please read the following source carefully.

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Based on the above source, attempt the following five questions.

285. Triangular arbitrage involves exploiting an inconsistency in the:
(A) spot and forward rates of a single currency.
(B) interest rates between two countries.
(C) cross-exchange rates among three currencies.
(D) inflation rates among three countries.

Direction : Please read the following source carefully.

The rationale for engaging in international trade lies in the gains it offers to participating nations. These gains from trade can be categorized as static or dynamic. Static gains arise from the reallocation of existing resources and are typically illustrated using standard trade models. They include production gains, which occur when countries specialize in producing goods in which they have a comparative advantage, leading to a more efficient use of resources and an increase in total world output. They also include consumption gains, which allow a country to consume a combination of goods that lies outside its domestic production possibility frontier. The distribution of these gains is heavily influenced by the terms of trade (TOT), which is the ratio of a country's export prices to its import prices. An improvement in the TOT means a country can acquire more imports for a given quantity of exports. Another key concept is the foreign trade multiplier, which demonstrates how a change in exports or imports can have a magnified impact

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Based on the above source, attempt the following five questions.

300. The National Treatment principle under GATT/ WTO rules pertains to:

(A) treating imported goods and domestically produced goods equally after the import has entered the market.

(B) treating all foreign trading partners equally in terms of tariffs.

(C) providing foreign investors the same rights as domestic investors.

(D) ensuring all member nations receive equal representation in the WTO.

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often deteriorates because the volume of exports and imports is relatively fixed, making imports more expensive immediately. Over time, as consumers and producers adjust their behavior to the new prices, export volumes increase and import volumes decrease, leading to an eventual improvement in the overall trade balance.

33. (C) Setting of domestic interest rates
The foreign exchange market performs several vital economic functions to facilitate international commerce. It enables the transfer of purchasing power between different nations and provides credit facilities for trade transactions. Additionally, it offers tools for hedging to minimize risks associated with currency fluctuations. However, the setting of domestic interest rates is a function of a country's central bank and monetary policy, not a direct function of the exchange market.

34. (B) P, R, and S only
The International Monetary Fund facilitates global financial stability and monetary cooperation. It was established at the Bretton Woods Conference and uses quotas to determine the voting power of its member nations. Beyond financial support, it offers technical assistance and policy guidance to its members. Unlike the World Bank, it does not focus on long-term project loans. Special Drawing Rights serve as international reserve assets rather than standard units for the bank.

35. (A) The terms of trade for primary commodity exporting countries tend to decline over time.
The Prebisch-Singer hypothesis posits that the price of primary commodities, such as raw materials and agricultural goods, tends to decline relative to the price of manufactured goods over the long term. This secular deterioration in the terms of trade places developing countries, which often rely on commodity exports, at a disadvantage. It suggests that these nations must continually export more to maintain their ability to purchase manufactured imports.

36. (B) Economic Union - Free movement of factors, independent fiscal policies.
Economic integration evolves through several stages, each requiring deeper cooperation. A free trade area removes internal barriers, while a customs union adds a common external tariff. A common market further allows the free movement of labor and capital. An economic union is a more advanced stage that requires the harmonization of fiscal and monetary policies among members. Therefore, suggesting that an economic union allows for independent fiscal policies is incorrect.

37. (A) Both Statement I and Statement II are true.
The Rybczynski theorem explores the relationship between factor endowments and output levels in a small open economy. It states that if the endowment of one production factor increases while prices remain constant, the output of the good using that factor intensively will rise more than proportionally. Simultaneously, the output of the other good will decrease. Both statements correctly identify the theorem's primary conclusion and its necessary assumption of fixed external terms of trade.

38. (A) The nominal exchange rate adjusted for inflation differentials between countries.
The real exchange rate measures the relative price of goods between two countries, indicating their international competitiveness. It is calculated by adjusting the nominal exchange rate—the market price of one currency in another—for the differences in price levels or inflation rates between the nations. A change in the real exchange rate reflects a shift in purchasing power, showing how many foreign goods can be exchanged for domestic goods.

39. (C) Transactions undertaken for their own sake, independent of the BOP position.
Autonomous transactions in the balance of payments are those carried out by individuals, firms, or governments for purely economic or personal reasons, such as profit-seeking or consumption. These activities occur independently of the country's overall balance of payments status. They are often referred to as transactions above the line. In contrast, accommodating transactions are specifically undertaken by authorities to settle gaps or imbalances created by these autonomous flows.

40. (D) Economies of scale and network effects.
Paul Krugman's trade models emphasize that international commerce is not only driven by

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nations. Specialization according to comparative advantage allows countries to consume beyond their domestic production possibilities. Additionally, expanding into global markets creates opportunities for economies of scale, which lowers production costs. While trade generally increases total welfare, these benefits are not always shared equally between partners due to variations in the specific terms of trade.

9. (C) A fixed sum of money levied on each physical unit of an imported good.

A specific tariff is a trade barrier imposed as a fixed monetary charge on each unit of an imported commodity. Unlike ad valorem tariffs, which are calculated based on the total value of the goods, specific tariffs remain constant regardless of price fluctuations. This type of duty is easy to administer for standardized products but provides less protection against inflation compared to percentage-based taxes on value.

10. (A) Imported and local goods must be treated equally once they enter the market.

National treatment is a core principle of international trade law ensuring that imported and locally produced goods are treated identically within a domestic market. Once an imported product has cleared customs and paid necessary duties, it must not face discriminatory internal taxes or regulations. This rule prevents countries from using domestic policies as hidden trade barriers, thereby promoting fair competition and transparency between member nations.

11. (A) Both A and R are true and R is the correct explanation of A.

The Heckscher-Ohlin theory explains trade patterns based on the relative abundance of production factors. A country with plentiful labor will export labor-intensive goods, while a capital-abundant nation exports capital-intensive products. This relationship proves that differences in factor endowments are the fundamental cause of comparative advantage. Because the reason logically supports and explains why the assertion holds true, both statements are accurate and properly connected.

12. (B) Frictional disequilibrium

Balance of payments disequilibrium occurs when there is a persistent mismatch between total credits and debits. Cyclical disequilibrium arises from business cycles, structural disequilibrium stems from changes in demand or supply conditions, and secular disequilibrium relates to long-term developmental changes. Frictional disequilibrium is not a standard term in international trade; instead, frictional problems are typically associated with labor market movements rather than external accounts.

13. (C) Arbitrage

Arbitrage involves the simultaneous purchase and sale of an asset in different markets to exploit price differences. In foreign exchange, traders buy a currency where its price is low and immediately sell it where the price is higher. This risk-free activity continues until the price discrepancy is eliminated across all markets. It differs from speculation, which involves taking on risk to profit from future price changes.

14. (D) P, Q, R, and T only

Trade barriers are policies that restrict international commerce to protect domestic industries. Tariffs are taxes on imports, while quotas limit the quantity allowed. Voluntary export restraints are limits set by the exporting country, often under political pressure. Ad valorem tariffs are calculated as percentages of value, not fixed charges. Non-tariff barriers include technical regulations like sanitary measures. These tools influence trade flows and domestic prices of goods.

15. (A) A supplementary international reserve asset created and maintained by the IMF.

Special Drawing Rights are international reserve assets created by the International Monetary Fund to supplement member countries' official reserves. They are not a physical currency but represent a potential claim on the freely usable currencies of IMF members. The value of an SDR is based on a basket of major global currencies. They help provide liquidity to the global financial system during times of economic stress.

16. (B) Technology Gap Model - Role of innovation and imitation

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The technology gap model explains trade based on the time lag between the introduction of a new product and its eventual imitation by foreign competitors. Innovation gives the originating country a temporary monopoly, allowing it to export the good. As the technology becomes widely known and imitated abroad, the initial trade advantage disappears. This framework emphasizes the dynamic role of research and development in trade.

17. (A) Both Statement I and Statement II are true.
The Marshall-Lerner condition defines the criteria under which a currency devaluation successfully improves the trade balance. It requires that the combined price elasticities of demand for exports and imports exceed unity. While devaluation directly makes exports more affordable for foreigners and imports more expensive for residents, the actual improvement in the balance depends on how consumers respond to these price changes. Both statements correctly describe these mechanisms.

18. (A) The purchasing power of the dollar is higher in India.
Purchasing power comparisons evaluate how much a specific amount of currency can buy in different locations. In this scenario, eighty dollars can purchase a hotel room in India, whereas the same quality room in the United States requires one hundred and fifty dollars. This indicates that the US dollar has greater purchasing power in the Indian market. Such discrepancies suggest that the real exchange rate differs from the nominal.

19. (C) The Keynesian theory of aggregate demand
The foreign trade multiplier is an extension of the Keynesian investment multiplier to an open economy. It measures the change in national income resulting from an autonomous change in exports or imports. According to this theory, an increase in exports boosts aggregate demand, leading to a more than proportional rise in total income. This process highlights how external trade shocks propagate through the domestic economy via spending.

20. (A) P, S, Q, R
Multilateral trade negotiations under GATT and the WTO occurred in several distinct stages. The Kennedy Round took place in the 1960s, followed by the Tokyo Round in the 1970s. The Uruguay Round, which led to the creation of the WTO, began in the mid-1980s. Finally, the Doha Development Round commenced in the early 2000s. Following this chronological order is essential for understanding the evolution of trade.

21. (C) The quantity of export good a country offers for a quantity of its import good.
An offer curve, also known as a reciprocal demand curve, illustrates the various quantities of an export commodity a country is willing to trade for different quantities of an import commodity. It combines the elements of supply for exports and demand for imports. The intersection of two countries' offer curves determines the equilibrium terms of trade, representing the relative price at which trade actually occurs.

22. (B) It can explain trade between similar countries in similar goods.
Theories of trade under imperfect competition account for the exchange of differentiated products within the same industry. This explains why developed nations with similar factor endowments trade similar goods, such as automobiles or electronics, with each other. This phenomenon, known as intra-industry trade, is driven by consumer preferences for variety and firms' ability to achieve economies of scale, rather than traditional comparative advantage based on resources.

23. (D) Revaluation of the domestic currency.
Financing a balance of payments deficit involves using specific methods to cover the gap between total debits and credits. Countries may use their foreign exchange reserves, borrow from international organizations like the IMF, or seek credit from foreign central banks. Revaluation, which increases the value of the domestic currency, would typically worsen a deficit by making exports more expensive and imports cheaper, thus it is not a solution.

24. (A) Rate differentials equal the expected change in exchange rates between currencies.
Uncovered interest parity is an economic theory suggesting that the difference in interest

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rates between two countries should equal the expected change in exchange rates between their currencies. If this condition holds, investors will earn the same return regardless of which currency they hold. Unlike covered interest parity, this theory does not involve the use of forward contracts to hedge against potential future exchange rate fluctuations.

25. (A) P-3, Q-4, R-1, S-2
Trade concepts are defined by their specific impacts on international commerce and national economies. Dumping involves predatory pricing in foreign markets, while quotas impose physical limits on imports. The terms of trade represent the relative price of exports compared to imports, reflecting a country's purchasing power. Finally, the trade multiplier illustrates how changes in export levels influence total national income, highlighting the interconnectedness of different economies through global trade.

26. (B) The price of its exports has risen relative to the price of its imports.
An improvement in the terms of trade occurs when the ratio of a country's export prices to its import prices increases. This means the country receives more for what it sells and pays less for what it buys on the global market. Consequently, the nation can purchase a larger volume of imports for any given quantity of exports, effectively increasing its real national income and improving overall economic welfare.

27. (D) An appreciation of the domestic currency.
In a flexible exchange rate system, currency values are determined by market forces of supply and demand. A balance of payments surplus indicates that the demand for the country's currency by foreigners exceeds the domestic supply of that currency. This high demand causes the currency's value to rise, a process known as appreciation. This adjustment eventually helps correct the surplus by making exports more expensive and imports cheaper.

28. (B) P, Q, and R only
The Stolper-Samuelson theorem analyzes how changes in product prices, often caused by trade, affect the real returns to factors of production. In a two-good, two-factor model, opening to trade increases the price of the export good, which raises the real return to the factor used intensively in its production. Conversely, the factor used intensively in the import-competing sector sees its real return fall, reflecting a shift in income distribution.

29. (C) Free Trade Area
A free trade area is a form of economic integration where member countries eliminate internal tariffs and quotas on goods traded between them. However, each member retains the autonomy to set its own individual tariff rates on imports from non-member countries. This differs from a customs union, where members must adopt a common external tariff. It is the most basic stage of regional cooperation, focusing solely on internal liberalization.

30. (A) Provide long-term development assistance and project financing to developing countries.
The World Bank's primary mission is to promote long-term economic development and poverty reduction in its member nations. It achieves this by providing financial support, such as loans and grants, for vital infrastructure, education, and health projects. While the IMF focuses on short-term monetary stability and balance of payments issues, the World Bank targets structural improvements to foster sustainable growth and improve living standards in less-developed regions.

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31. (A) Both A and R are true and R is the correct explanation of A.
Intra-industry trade involves the exchange of similar goods between nations with comparable levels of economic development. This phenomenon is primarily driven by economies of scale and product differentiation, as consumers seek variety and firms specialize in specific niches. Because these drivers differ from the resource-based comparative advantage found in traditional models, the reason correctly explains why developed nations frequently engage in this type of trade despite having similar technologies.

32. (B) The trade balance initially worsens before it improves.
The J-curve effect illustrates the time-lagged response of a country's trade balance to currency devaluation. In the short run, the trade balance

in its current and capital accounts combined, the central bank must draw down its reserves to settle the difference. This ensures that the overall balance of payments always sums to zero in an accounting sense.

64. (D) A depreciation of the INR.
When the exchange rate increases from 75 to 80 units of domestic currency per dollar, it means that more local money is required to purchase a single unit of foreign currency. This reflects a decrease in the value of the domestic currency relative to the dollar. This process is known as depreciation in a market-determined system. It makes domestic goods cheaper for foreign buyers while increasing the cost of imports for local residents.

65. (B) P-3, Q-2, R-1, S-4
Governments use various policy instruments to regulate international trade and protect domestic interests. Voluntary export restraints are limits agreed upon by the exporter, while anti-dumping duties counteract unfairly low prices. Export subsidies are financial supports provided by a government to encourage firms to sell goods abroad. Finally, ad valorem tariffs are taxes calculated as a percentage of the total value of imported products. Each tool influences trade volumes and market prices differently.

66. (B) Monetary phenomenon related to an imbalance between the demand for and supply of money.
The monetary approach to the balance of payments suggests that external imbalances are fundamentally caused by domestic monetary conditions. A deficit occurs when the supply of money exceeds the demand for it, leading residents to spend the excess on foreign goods and assets. Conversely, a surplus arises when money demand exceeds supply. This theory posits that balance of payments problems are temporary and self-correcting through adjustments in the money supply and domestic price levels.

67. (D) Only factor returns (wages, rent) between countries.
The factor price equalization theorem is a significant extension of the Heckscher-Ohlin model. It predicts that international trade in finished goods will lead to the equalization of the real returns to homogeneous factors of production, such as wages for labor and rent for capital, across different countries. This happens because trade changes the demand for these factors internally. Under strict assumptions, trade acts as a perfect substitute for the international mobility of the factors themselves.

68. (C) P, Q, and R only
Raymond Vernon's product life cycle theory explains how the location of production and trade patterns for a product change as it matures. New products are typically innovative and produced in developed countries. As the product becomes maturing and standardized, production shifts toward lower-cost regions, including developing nations, to take advantage of cheaper labor. While the theory is highly applicable to manufactured goods and technology, it is not used to explain trade in agricultural commodities.

69. (C) Maximizes the net benefit for the tariff-imposing country.
An optimum tariff is a specific duty rate that maximizes the overall economic welfare of a large country. It works by improving the country's terms of trade, effectively shifting some of the tax burden onto foreign producers. While the tariff creates a domestic distortion that reduces efficiency, the gain from paying lower prices for imports outweighs this loss at the optimum level. This strategy is only effective for nations with significant market power.

70. (A) Bilateralism
The GATT and its successor, the WTO, are built on several fundamental principles designed to promote free and fair global trade. Non-discrimination ensures that all members are treated equally, while reciprocity encourages mutual concessions in trade barriers. Transparency requires that trade rules be clear and accessible. Bilateralism, which involves agreements between only two countries, is generally discouraged in favor of multilateralism, where rules are negotiated and applied among all member nations simultaneously.

71. (A) Both A and R are true and R is the correct explanation of A.

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differences in resources but also by increasing returns to scale. Large-scale production lowers unit costs, allowing firms to compete globally even in similar industries. This approach explains intra-industry trade and why production often clusters in specific regions. Network effects further reinforce these advantages, as the value of a product or service increases with the number of its users.

41. (C) It can increase national welfare if terms of trade gains exceed efficiency loss.

When a large country imposes a tariff, it can influence world prices due to its significant market share. The tariff reduces domestic demand for the import, forcing foreign producers to lower their prices to maintain sales. This improves the large country's terms of trade. While the tariff creates domestic distortion and efficiency losses, the country's overall welfare increases if the gains from better terms of trade outweigh these deadweight losses.

42. (B) The US exported less capital-intensive goods, contrary to the H-O model's prediction.

The Heckscher-Ohlin model predicts that a capital-abundant country like the United States should export capital-intensive goods. However, Wassily Leontief's empirical study found that US exports were actually more labor-intensive than its import-competing goods. This surprising result, known as the Leontief Paradox, suggested that factors like labor skills, technology, or natural resources might play a more significant role in determining trade patterns than simple capital and labor ratios.

43. (D) Exports of goods and services.

In the balance of payments, credit entries represent transactions that lead to an inflow of foreign currency into a country. When a nation exports goods or services, it receives payments from foreign residents, increasing its foreign exchange earnings. Conversely, imports, the purchase of foreign assets, or sending gifts abroad result in currency outflows and are recorded as debits. Credits essentially reflect the sources of foreign funds for the domestic economy.

44. (A) Their domestic purchasing powers at that rate of exchange are equivalent.

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Purchasing power parity is a theory suggesting that exchange rates between currencies are in equilibrium when they have equal purchasing power. This means a specified basket of goods should cost the same in both countries when converted into a common currency at the prevailing exchange rate. This principle is based on the law of one price, assuming that in the absence of trade barriers, market forces will equalize prices globally.

45. (B) P-3, Q-1, R-2, S-4

Global economic organizations serve distinct roles in the international system. The IMF maintains monetary stability and manages balance of payments issues, while the WTO establishes and enforces rules for international trade. The World Bank focuses on long-term economic development by providing project-based loans. Regional agreements, such as the North American Free Trade Agreement, focus on eliminating trade barriers between specific neighboring countries to create integrated regional markets.

46. (B) Temporarily selling goods at low prices to drive foreign competitors out of business.

Predatory dumping is a deliberate, short-term strategy where a firm sells its products in a foreign market at extremely low prices, often below cost. The goal is to eliminate local competition and establish a dominant market position. Once competitors are driven out of business, the firm can then raise prices to monopoly levels. Because it aims to distort market competition, most international trade regulations consider predatory dumping an unfair and illegal practice.

47. (D) The quantities of imports and exports to changes in the exchange rate.

The elasticity approach to balance of payments adjustment examines how changes in the exchange rate influence the trade balance through price effects. It focuses on the price elasticity of demand for both exports and imports. According to this view, a currency devaluation will only improve the trade balance if buyers are sufficiently responsive to price changes. This ensures that the increase in export revenue and decrease in import spending outweigh the higher costs.

ANSWERS

1. (B) Absolute Advantage
   Absolute advantage refers to the capability of a country to produce a specific good using fewer resources than another nation. This concept, popularized by Adam Smith, emphasizes productivity and efficiency in the use of labor or other inputs. By specializing in goods where they possess such an advantage, countries can increase total global output, creating a basis for mutually beneficial trade and economic cooperation.

2. (A) It shows the maximum combinations of two goods producible with fixed resources.
   The production possibility frontier represents the boundary of what an economy can produce given its finite resources and technology. It illustrates the trade-offs between two different goods and the maximum efficient output possible. Points on the curve show full resource utilization, while points inside represent inefficiency. This economic model helps visualize scarcity, opportunity costs, and the potential for expansion through growth or trade specialization.

3. (C) It raises global output via specialization based on absolute advantage.
   Adam Smith argued that global trade increases total world output because it allows nations to focus on goods they produce most efficiently. This specialization based on absolute advantage ensures that resources are allocated effectively, leading to a surplus that benefits all participants. By moving away from self-sufficiency and embracing trade, countries can consume more than they could in isolation, transforming commerce into a positive-sum game.

4. (D) Differences in labor productivity
   David Ricardo's model of international trade identifies labor as the sole factor of production. The theory posits that trade patterns are determined by differences in labor productivity across nations. Even if one country is less efficient in producing everything, it should specialize in goods where its relative productivity is highest. This comparative advantage framework demonstrates how nations maximize welfare by focusing on their most efficient industries.

5. (A) P-3, Q-4, R-1, S-2
   International trade theories are associated with specific economic thinkers who developed foundational frameworks. Adam Smith introduced absolute advantage, while David Ricardo established the principle of comparative advantage. Later, Eli Heckscher and Bertil Ohlin explained trade through factor proportions, emphasizing capital and labor endowments. John Stuart Mill contributed the theory of reciprocal demand, which helps determine the equilibrium terms of trade between nations by considering mutual consumer desire.

6. (B) Unilateral transfers like gifts and grants are part of the capital account.
   The balance of payments records all economic transactions between residents of a country and the rest of the world. The current account consists of visible trade, invisible trade, and unilateral transfers. These transfers include one-way payments such as gifts, grants, and remittances for which no service is rendered. Placing these in the capital account is incorrect because the capital account specifically tracks financial assets and liabilities.

7. (D) It will improve the trade balance by making exports cheaper for foreigners.
   Currency depreciation lowers the value of a nation's money relative to others. This change makes domestically produced goods more affordable for foreign buyers because they need less of their own currency to purchase them. Consequently, export volumes tend to rise while imports become more expensive for domestic consumers. This shift in relative prices encourages foreign demand, potentially leading to a more favorable trade balance over time.

8. (A) P, Q, and S only
   Gains from international trade involve both static and dynamic benefits for participating

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rates. It differs from forward transactions, which involve future delivery dates and rates.

56. (B) The Rybczynski theorem
The Stolper-Samuelson theorem and the Rybczynski theorem are considered duals in international trade theory because they explore related relationships between prices and factors. Stolper-Samuelson focuses on how changes in product prices affect factor prices, while Rybczynski examines how changes in factor endowments affect product outputs. Both theorems operate within the same two-good, two-factor framework and provide consistent insights into how trade and resource shifts influence the internal structure of an economy.

57. (D) It promoted freely floating exchange rates determined by market forces.
The Bretton Woods system was an international monetary framework established to prevent the economic volatility of the pre-war era. It created the IMF and World Bank and established a system of fixed but adjustable exchange rates. Under this regime, the US dollar was pegged to gold, and other currencies were pegged to the dollar. It did not promote freely floating rates; in fact, the system eventually collapsed when the move toward floating rates became inevitable.

58. (A) The exchange of similar products belonging to the same industry between two countries.
Intra-industry trade occurs when a country both exports and imports products that are part of the same industrial category. For example, a nation might export high-end luxury cars while importing affordable compact vehicles. This type of trade is driven by consumer demand for variety and firms' specialization in specific product niches. It is particularly common among developed nations with similar economic structures and highlights the importance of product differentiation in global commerce.

59. (C) The marginal propensity to import.
The foreign trade multiplier measures how an initial change in autonomous spending, like exports, affects a nation's total income. In an open economy, the multiplier is constrained by leakages from the income stream. These leakages include the marginal propensity to save and the marginal propensity to import. A higher tendency to spend on imports means that less money recirculates within the domestic economy, thereby reducing the overall magnitude of the multiplier effect.

60. (A) S, Q, P, R
Economic integration progresses through distinct stages characterized by increasing levels of policy coordination. It begins with a free trade area, which removes internal tariffs. A customs union adds a common external tariff for non-members. A common market goes further by allowing the free movement of labor and capital. The most advanced stage is an economic union, which involves the total harmonization of economic and monetary policies, including a shared currency.

61. (D) Per capita income levels
Staffan Linder's hypothesis suggests that the primary determinant of trade in manufactured goods is the similarity in demand structures between countries. These demand structures are largely influenced by per capita income levels. Nations with similar incomes tend to produce and consume similar qualities of sophisticated products. Therefore, they are more likely to trade manufactured goods with each other because their domestic industries are already geared toward meeting the specific preferences of similar consumers.

62. (B) Perfectly mobile between sectors within a country but immobile between countries.
A fundamental assumption of the Ricardian model is the nature of labor mobility. It assumes that workers can easily move between different industries or sectors within their own country, ensuring that wages eventually equalize domestically. However, it also assumes that labor cannot move across national borders. This lack of international mobility is what creates the persistent differences in labor productivity and costs that form the basis for comparative advantage and international trade.

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63. (C) Official reserves account
The official reserves account acts as the final balancing item in the balance of payments. It records the transactions of the central bank involving foreign assets, such as gold and foreign currencies. When a country has a net deficit

48. (B) P, Q, and S only
Regional trade blocs represent different levels of economic integration. A customs union requires a common external tariff, while a common market adds the free movement of labor and capital factors. The European Union serves as an example of an economic union, which includes policy harmonization. However, a free trade area is actually one of the least integrated forms, as members maintain individual external tariffs. Therefore, the statement regarding its high integration is incorrect.

49. (C) The act of covering a foreign exchange risk.
Hedging is a financial strategy used by individuals and firms to protect themselves against potential losses from unfavorable exchange rate fluctuations. By using instruments like forward contracts or options, participants can lock in a specific exchange rate for future transactions. This provides certainty in international trade and investment, allowing businesses to plan their budgets without worrying about the volatility of currency markets. It is a risk-reduction technique, not a profit-seeking activity.

50. (A) John Stuart Mill
John Stuart Mill introduced the concept of reciprocal demand to determine the exact equilibrium terms of trade within the limits set by comparative advantage. While Ricardo established the basis for trade, Mill explained how the relative strength of each country's demand for the other's products determines the final price. This theory highlights that the country with the stronger demand for the other's goods will receive a smaller share of the total gains from trade.

51. (A) Both A and R are true and R is the correct explanation of A.
Transportation costs act as a natural barrier to international trade by increasing the final price of goods delivered to foreign markets. Even if a country has a clear comparative advantage based on production costs, high shipping expenses can make its products uncompetitive. These costs reduce the net gains from specialization and may prevent trade from occurring entirely if they exceed the price difference between nations. Thus, both statements accurately describe this significant economic constraint.

52. (B) A large discovery of a natural resource leads to a decline in the manufacturing sector.
Dutch disease refers to the economic phenomenon where a boom in a specific sector, typically natural resources, causes the national currency to appreciate sharply. This makes other export sectors, like manufacturing and agriculture, less competitive on the global market. As resources shift toward the booming sector, the rest of the economy may experience contraction. This situation highlights the challenges of managing large resource windfalls while maintaining a diversified and balanced national economic structure.

53. (C) The income adjustment mechanism.
The income adjustment mechanism explains how changes in a nation's national income affect its balance of payments. When domestic income rises, consumers tend to spend more on all goods, including those produced abroad. This increase in the marginal propensity to import leads to a higher volume of imports, which can deteriorate the trade balance. This process demonstrates the direct link between a country's internal economic growth and its external trade position.

54. (C) P, Q, R, and S only
The World Trade Organization was established in 1995 as a successor to GATT, following years of negotiations in the Uruguay Round. It operates on the most-favored-nation principle and possesses a binding dispute settlement system. Unlike its predecessor, the WTO's scope extends beyond physical goods to include trade in services and intellectual property rights. Because it covers these broader areas, any statement suggesting it only deals with goods is factually incorrect.

55. (C) The immediate exchange of currencies, typically for settlement within two business days.
A spot transaction in the foreign exchange market refers to the purchase or sale of a foreign currency for immediate delivery. While the agreement is made instantly, the actual exchange and settlement of funds usually take place within two business days. This is the most common type of currency trade and serves as the basis for determining current market exchange

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The formation of a customs union results in two distinct economic effects: trade creation and trade diversion. Trade creation is beneficial as it shifts production from high-cost domestic firms to more efficient producers within the union. In contrast, trade diversion is harmful because it shifts imports from efficient non-member countries to less efficient members due to the common external tariff. The overall welfare impact depends on which of these two effects dominates after the agreement is implemented.

72. (B) The quantity of imports to the quantity of exports.

The gross barter terms of trade measures the relationship between the physical volumes of a country's imports and exports. It is calculated as the ratio of the total quantity of imports to the total quantity of exports. An increase in this ratio indicates that a country is receiving more imports for a given amount of exports, which is generally viewed as an improvement. This measure focuses on actual physical flows rather than the prices of the goods.

73. (C) Using a forward contract to eliminate the exchange rate risk when borrowing in one currency and lending in another.

Covered interest arbitrage is a strategy used by investors to profit from differences in interest rates between two countries while eliminating exchange rate risk. The investor borrows money in a low-interest-rate currency, converts it to a high-interest-rate currency to invest, and simultaneously enters a forward contract to sell the foreign currency in the future. This ensures that the final conversion rate is locked in, making the profit predictable regardless of market fluctuations.

74. (A) T only

The balance of payments is an accounting record that must always balance, meaning the sum of all accounts should be zero. Current account transactions include goods, services, and income flows, while the capital account records investments like FDI. Accommodating transactions are specifically used to resolve imbalances. Suggesting that the sum of these accounts must always be positive is incorrect, as a surplus in one must be matched by a corresponding deficit or reserve change in another.

75. (A) To mediate trade conflicts between member countries and issue binding rulings.

The Dispute Settlement Body is a vital component of the World Trade Organization, responsible for resolving trade disagreements between member nations. When a country believes another member is violating trade agreements, it can bring the case to this body. The process involves consultation, panel reports, and potential appeals. Unlike many international systems, its rulings are binding, and it has the authority to authorize trade sanctions if a country fails to comply with its decisions.

76. (B) National income and expenditure (absorption).

The absorption approach analyzes the balance of payments by focusing on the relationship between a country's total output and its total domestic spending, or absorption. According to this framework, a trade deficit exists when a nation's residents spend more than the country produces. For a currency devaluation to be effective, it must either increase total production or decrease domestic absorption. This approach emphasizes that purely monetary or price changes must influence these real variables to work.

77. (D) A regulatory procedure requiring complex and costly electronic testing.

Non-tariff barriers are diverse policy measures, other than traditional customs duties, that restrict or distort international trade. While tariffs are simple taxes on goods, these barriers include quotas, licensing requirements, and technical regulations. Complex testing procedures and strict health standards can serve as hidden trade barriers by significantly increasing the cost and difficulty for foreign firms to enter a market. These measures are often used to protect domestic industries under the guise of safety or quality control.

78. (A) Both Statement I and Statement II are true.

Trade models are built on differing assumptions regarding technology to explain why nations trade. The Ricardian model posits that differences in technological efficiency and labor productivity

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93. (C) It can purchase fewer foreign goods than domestic goods.

Within a purchasing power parity framework, a currency is considered overvalued if its market exchange rate is higher than the rate suggested by relative price levels. This means that a given amount of the currency has less purchasing power abroad than it does at home. Overvaluation makes a country's exports more expensive and imports cheaper, which often leads to a trade deficit. It suggests that the currency must eventually depreciate to reach its true equilibrium value.

94. (B) P, Q, R, and S only

The World Trade Organization manages a comprehensive set of international agreements that govern various aspects of global commerce. These include the GATT for goods, GATS for services, TRIPS for intellectual property, and TRIMS for investment measures. These pillars form the legal framework for international trade relations among member nations. The Bretton Woods Agreement, while foundational to the global financial system and the creation of the IMF and World Bank, is not an agreement managed by the WTO.

95. (A) The Marshall-Lerner condition is satisfied.

Devaluation is an economic policy intended to improve a country's trade balance by altering relative prices. For this to be successful, the Marshall-Lerner condition must be met, meaning the total price elasticity of demand for exports and imports must be greater than one. This ensures that the quantity changes in trade are significant enough to outweigh the higher cost of imports. Without sufficient elasticity, devaluation might fail to fix a deficit and could even worsen the economic situation.

96. (B) Interest payment on foreign loan - Credit in Current Account

The balance of payments records different types of financial flows across its accounts. Merchandise exports are credits in the current account because they bring in foreign currency. Similarly, foreign investment is a credit in the capital account. However, interest payments on foreign loans represent an outflow of currency and should be recorded as a debit in the current account. Misclassifying an outflow as a credit is an incorrect application of fundamental balance of payments accounting principles.

97. (A) Both Statement I and Statement II are true.

While tariffs and quotas can be designed to limit imports to the same level, their economic impacts differ significantly under monopolistic conditions. A tariff sets a price ceiling, limiting a monopolist's ability to raise prices beyond the world price plus the tax. In contrast, a quota provides a firm physical limit on competition, allowing a domestic monopolist to exercise more market power and charge higher prices. Thus, both statements correctly highlight that these tools are not equivalent in practice.

98. (B) The geographical distance between them.

The gravity model of international trade uses an analogy from physics to predict the volume of commerce between two countries. It posits that trade is directly proportional to the size of the economies, measured by their GDP, as larger economies produce more goods and have higher demand. Conversely, trade is inversely related to the geographical distance between nations. Distance serves as a proxy for transportation costs, time, and cultural differences, all of which act as barriers to trade.

99. (C) The International Monetary Fund

The International Monetary Fund serves as a crucial safety net in the global financial system. Its primary role is to ensure stability by providing emergency financial assistance to member countries facing severe balance of payments crises. When a nation cannot meet its international payment obligations and lacks access to private markets, it turns to the IMF for loans. These funds are typically provided with conditions requiring the country to implement economic reforms to restore its financial health.

100. (A) S, Q, R, P

The evolution of the global economic system followed a specific historical sequence. It began with the Bretton Woods Conference in 1944, which established the post-war financial order. This system of fixed exchange rates collapsed in the early 1970s. Decades later, the Uruguay Round of trade negotiations concluded, setting the stage for major changes in global commerce. This process finally culminated in the creation of

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income distribution by changing the real returns to different factors of production.

86. (B) An increase in the price of the imported good and an increase in domestic production.
An import quota restricts the total quantity of a foreign good that can enter a country. This reduction in supply, assuming demand remains constant, leads to an increase in the market price of the imported product. Higher domestic prices make it more profitable for local firms to produce the good, leading to an increase in domestic production. While this protects local industries, it also results in higher costs for consumers and potential welfare losses for the nation.

87. (D) Export of merchandise to a foreign country.
Accommodating transactions are specific flows in the balance of payments undertaken by monetary authorities to resolve a gap between autonomous credits and debits. These include using foreign exchange reserves, borrowing from the IMF, or utilizing special drawing rights. In contrast, exporting merchandise is an autonomous transaction carried out by businesses for profit, independent of the country's overall balance of payments position. Such activities are considered above the line because they occur for their own sake.

88. (A) P, Q, and S only
International trade offers both static and dynamic gains. Static gains arise from the immediate reallocation of resources toward sectors with a comparative advantage, allowing consumption beyond domestic production limits. Dynamic gains occur over time through increased competition and economies of scale made possible by larger markets. Suggesting that gains are only measured by consumer surplus is incorrect, as producer surplus and overall national welfare are also key factors. These combined benefits enhance a nation's long-term economic growth.

89. (C) The invention-imitation time lag between trading partners.
Michael Posner's technology gap model suggests that trade often occurs due to differences in the timing of technological innovation across countries. When a firm in one country develops a new product, it enjoys a temporary monopoly and can export the good globally. Trade continues until foreign competitors eventually imitate the technology and begin domestic production. This theory emphasizes that the dynamic process of innovation and the resulting time lags are significant drivers of international trade patterns.

90. (A) The International Trade Organization (ITO)
The post-war economic framework envisioned at Bretton Woods was intended to be supported by three major pillars: the IMF for monetary stability, the World Bank for reconstruction, and the International Trade Organization for regulating trade. While the first two were successfully established, the ITO charter failed to gain legislative approval in several countries, most notably the United States. Consequently, the General Agreement on Tariffs and Trade served as a temporary substitute for nearly five decades.

91. (B) Both A and R are true but R is not the correct explanation of A.
In a fixed exchange rate system, the central bank is committed to maintaining a specific currency value, which requires frequent intervention by buying or selling foreign reserves. This commitment means that monetary policy cannot be used freely for domestic goals like controlling inflation or unemployment, as it must prioritize the exchange rate peg. While both statements are factually correct, the loss of policy autonomy is a consequence of the system, not the reason why intervention occurs.

92. (D) $\left(\frac{\text{Price of Exports}}{\text{Price of Imports}}\right) \times \text{Quantity of Exports}$
The income terms of trade measure a country's capacity to import based on its export earnings. It is calculated by taking the net barter terms of trade—the ratio of export prices to import prices—and multiplying it by the total quantity of exports. This index is particularly useful for developing nations, as it shows whether an increase in export volume can compensate for a decline in export prices, thereby maintaining or improving the nation's overall purchasing power.

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are the primary reasons for comparative advantage. In contrast, the Heckscher-Ohlin model assumes that technology is identical across all countries, arguing instead that trade patterns are determined by differences in the relative abundance of production factors like capital and labor. Both statements accurately identify these fundamental theoretical distinctions.

79. (C) The forward exchange rate is higher than the spot exchange rate.

A forward premium occurs when the price of a currency for future delivery is higher than its current market price for immediate delivery. This situation typically indicates that the market expects the currency to increase in value or that interest rates in that country are lower than those abroad. Investors and businesses use these rates to hedge against future fluctuations. The existence of a premium reflects the cost of securing a specific exchange rate for a future date.

80. (A) Project and program-based lending for long-term development.

The International Bank for Reconstruction and Development, the core arm of the World Bank, focuses on providing long-term financial support to middle-income and creditworthy low-income countries. Its primary objective is to fund major development projects in areas like infrastructure, energy, and environmental sustainability. By providing loans with favorable terms, the IBRD helps these nations implement large-scale programs that foster economic growth and reduce poverty, distinguishing its role from the IMF's focus on short-term stability.

81. (D) Free movement of factor inputs labor and capital.

A common market represents a deeper level of economic integration than a customs union. While a customs union involves internal free trade and a common external tariff, a common market goes further by removing restrictions on the movement of factors of production. This allows workers to seek employment and businesses to invest capital freely across national borders within the bloc. This increased mobility leads to a more efficient allocation of resources and greater economic convergence among members.

82. (B) Gottfried Haberler

Gottfried Haberler modernized the theory of international trade by introducing the concept of opportunity cost. He moved away from the restrictive labor theory of value used by Ricardo, using production possibility curves to illustrate trade-offs between goods. According to this view, a country has a comparative advantage in a good if it can produce it at a lower opportunity cost—measured in terms of other goods foregone—than its trading partners. This framework remains a cornerstone of trade analysis.

83. (C) Ensure the account balances to zero.

The balance of payments is constructed using double-entry bookkeeping, meaning every transaction should have a corresponding credit and debit. However, due to difficulties in tracking all international transactions and discrepancies in timing or valuation, the accounts rarely balance perfectly in practice. Errors and omissions is a residual category used to account for these statistical discrepancies. It ensures that the total balance of payments always sums to zero, maintaining the fundamental accounting identity of the statement.

84. (D) A weighted average of its exchange rates against a basket of other major currencies.

The effective exchange rate provides a comprehensive measure of a currency's overall value relative to its main trading partners. Instead of looking at a single exchange rate, it uses a weighted average of the currency's rates against a basket of foreign currencies. The weights are typically determined by each partner's share in the country's total trade. This index helps economists and policymakers assess a nation's overall international competitiveness and the broad impact of currency movements.

85. (B) P-4, Q-3, R-2, S-1

Key trade concepts relate to specific economic outcomes and analytical frameworks. The Marshall-Lerner condition focuses on how price elasticities affect the trade balance after devaluation. The Prebisch-Singer hypothesis suggests a long-term decline in the terms of trade for primary goods. The Leontief Paradox served as an empirical test challenging the Heckscher-Ohlin model's predictions. Finally, the Stolper-Samuelson theorem explains how trade shifts

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the World Trade Organization, which officially began its operations on January 1, 1995.

101. (D) The existence of a common external tariff.
Regional trade agreements vary in their level of economic integration and policy coordination. A free trade area is a basic arrangement where member countries eliminate internal tariffs but maintain their own separate trade policies toward non-members. In contrast, a customs union represents a deeper level of integration because all member nations must agree on and implement a common external tariff. This requirement necessitates a greater degree of cooperation and shared decision-making regarding international trade relations with the world.

102. (B) The occasional sale of a product at a lower price in a foreign market to unload an unforeseen surplus.
Sporadic dumping occurs when a firm occasionally sells its products in a foreign market at a price significantly lower than its domestic price. This is typically done to quickly dispose of unexpected or excess inventory that cannot be sold at home without lowering local prices. Unlike predatory or persistent dumping, it is a temporary action and is not intended to drive out competitors or maintain a long-term price advantage. It is a strategy for managing short-term supply imbalances.

103. (C) Country B has a comparative advantage in cloth.
Comparative advantage is determined by comparing the opportunity costs of production between two nations. In this scenario, for Country A to produce one unit of cloth, it must give up two units of wheat. In contrast, Country B only gives up one and a half units of wheat to produce one unit of cloth. Since Country B has a lower opportunity cost for cloth, it possesses a comparative advantage in that good and should specialize in its production.

104. (D) Restriction of trade-distorting conditions such as local content rules.
The Agreement on Trade-Related Investment Measures is a WTO accord designed to prevent national investment policies from distorting international trade. It specifically prohibits requirements that favor domestic products over imports, such as local content rules, which force foreign investors to use a certain amount of locally produced inputs. By eliminating these discriminatory practices, TRIMS aims to promote a more open and fair global environment for both trade and investment among all member nations.

105. (A) P-4, Q-2, R-1, S-3
International trade theory utilizes various concepts to explain market behaviors and policy effects. An offer curve depicts a country's willingness to trade goods at different price levels. Immiserizing growth describes a rare situation where rapid economic expansion actually lowers a nation's welfare through deteriorating terms of trade. An optimum tariff is a rate that maximizes national benefit. Finally, the infant industry argument provides a justification for temporarily protecting new domestic industries from more established foreign competitors.

106. (B) A surplus in its capital and financial account.
The balance of payments is an accounting framework where the total credits must always equal the total debits. A current account deficit indicates that a country is spending more on foreign goods, services, and transfers than it is earning from them. To settle this gap, the nation must attract an equivalent amount of foreign funds through its capital and financial account. This is typically achieved by borrowing from abroad, selling domestic assets, or attracting foreign investment.

107. (C) It provides long-term loans for infrastructure projects in poor countries.
The International Monetary Fund is primarily tasked with maintaining global monetary stability and providing short-term financial assistance for balance of payments problems. It promotes cooperation and facilitates the growth of international trade by monitoring economic policies. However, providing long-term loans for development and infrastructure projects is the specific mandate of the World Bank, not the IMF. Understanding the different roles of these Bretton Woods institutions is essential for analyzing international financial architecture and its functions.

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108. (B) P, Q, and R only

David Ricardo developed the theory of comparative advantage, which remains a fundamental principle of international trade. The theory demonstrates that trade can be mutually beneficial even if one country is more efficient at producing all goods. This is because gains arise from differences in opportunity costs rather than absolute productivity levels. While the model assumes labor is mobile within a country, it specifically assumes that labor is immobile between countries, as this creates the basis for trade.

109. (C) The forward premium or discount on a currency is approximately equal to the interest rate differential between the two countries.

Interest rate parity is an economic theory that links interest rates, spot exchange rates, and forward exchange rates. It suggests that if capital can move freely, any difference in interest rates between two nations will be offset by the forward premium or discount on their currencies. This condition ensures that the total return on investments is equalized across borders, preventing risk-free arbitrage. It is a core principle in understanding how financial markets and exchange rates interact globally.

110. (A) Limit exchange rate fluctuations among member currencies.

The 'snake in the tunnel' was an experimental arrangement established by several European countries in the early 1970s. Its primary goal was to minimize exchange rate volatility between their currencies while still operating within the broader limits set by the global monetary system. The 'snake' represented the narrow band for internal fluctuations, while the 'tunnel' was the wider external limit. This effort was an early step toward the eventual creation of a more unified European monetary system.

111. (A) Both A and R are true and R is the correct explanation of A.

The J-curve effect describes the short-term phenomenon where a currency devaluation initially worsens the trade balance. This happens because the prices of imports rise immediately, while the volumes of exports and imports take time to adjust due to existing contracts and consumer habits. Because these volumes are inelastic in the short run, the higher cost of current imports outweighs the revenue gains from cheaper exports. Over time, as elasticities increase, the trade balance eventually improves as expected.

112. (B) factor endowments

While the Ricardian model explains trade through differences in labor productivity and technology, the Heckscher-Ohlin model focuses on the relative availability of production factors. It argues that countries will export goods that require large amounts of their most abundant factors, such as capital or labor. This framework suggests that the underlying cause of comparative advantage is not just how efficiently a country uses its labor, but the specific mix of resources it possesses compared to its trading partners.

113. (C) The demand for and supply of money.

The monetary approach to the balance of payments analyzes external account imbalances through the lens of domestic money markets. It posits that a deficit or surplus is fundamentally a result of an imbalance between the total demand for money and the total supply provided by the central bank. If the supply of money exceeds the amount people want to hold, they will spend the excess on foreign goods and assets, leading to a balance of payments deficit.

114. (A) P, Q, R, and S only

Economic integration progresses through increasingly complex stages, from free trade areas to full economic unions. Each stage builds on the previous one by adding features like common external tariffs, factor mobility, and policy harmonization. While NAFTA is a well-known agreement, it is a free trade area, not a common market, because it does not allow for the free movement of labor. Correctly identifying these stages is essential for understanding regional trade dynamics and the depth of international cooperation.

115. (A) An obligation to buy or sell a specified amount of currency at a pre-agreed rate on a future date.

A forward contract is a customized financial agreement between two parties to exchange a specific amount of currency at a fixed rate on a set future date. Unlike options, which

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provide a choice, a forward contract is a binding obligation. Businesses use these contracts as a primary tool for hedging, allowing them to lock in exchange rates and protect themselves from the risk of currency fluctuations. This provides certainty and stability for international trade and financial planning.

116. (B) Economic growth leads to such a severe deterioration in a country's terms of trade that it becomes worse off.

Immiserizing growth is a theoretical concept introduced by Jagdish Bhagwati. it describes a situation where an expansion in a country's export sector leads to a massive increase in the supply of its goods on the world market. This surge in supply causes the world price of those exports to drop so significantly that the country's terms of trade deteriorate. The loss from lower prices can sometimes outweigh the gains from higher production, making the nation poorer overall.

117. (D) Statement I is false, but Statement II is true.

The World Bank Group is composed of five distinct institutions, not just two. While the IBRD and IDA are the most prominent, the group also includes the IFC, MIGA, and ICSID. The IBRD focuses on lending to middle-income countries at market-related rates, whereas the IDA provides highly concessional loans and grants to the world's poorest nations. Therefore, while the second statement accurately describes the specific roles of these two arms, the first statement is too restrictive.

118. (B) A credit in the capital account.

In the balance of payments, the capital and financial accounts record transactions involving the transfer of ownership of assets. When a foreign resident purchases domestic stocks or shares, it represents an inflow of capital into the home country. This transaction is recorded as a credit because it leads to an increase in the country's foreign exchange holdings. This type of flow is a form of foreign portfolio investment, reflecting international interest in the domestic financial market.

119. (C) An ad valorem tariff provides a more stable degree of protection during periods of changing import prices.

An ad valorem tariff is calculated as a fixed percentage of the value of an imported good. This means that as the price of the import rises, the total amount of the tax also increases proportionally. Consequently, the relative degree of protection for domestic industries remains constant even if global prices fluctuate. In contrast, the protective effect of a specific tariff, which is a fixed monetary amount, weakens significantly if the price of the imported good rises.

120. (D) The Linder Hypothesis

The Linder Hypothesis argues that international trade in manufactured goods is primarily driven by similarities in demand between countries rather than differences in resources. Nations with similar per capita income levels tend to have similar preferences for high-quality, differentiated products. Therefore, firms in these countries produce goods that are well-suited for each other's markets. This theory explains why a large portion of global trade occurs between wealthy, developed nations with comparable standards of living and technological capabilities.

121. (C) The Bretton Woods System

The Triffin Dilemma refers to a fundamental conflict of interest within the Bretton Woods monetary system. For the world to have enough liquidity for trade, the United States had to run constant balance of payments deficits to supply dollars globally. However, these persistent deficits eventually undermined foreign confidence in the dollar's value and its link to gold. This paradox highlighted the instability of relying on a single national currency as the primary international reserve asset for the global economy.

122. (B) Services delivered from one country territory into another via electronic or postal means.

The General Agreement on Trade in Services identifies four modes of supply in international commerce. Mode 1 involves cross-border supply, where the service itself moves across a border while both the supplier and consumer stay in their respective countries. Common examples include software downloads, architectural designs sent via email, or tele-medical consultations. This mode is increasingly significant in the digital

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economy as technological advancements facilitate global services.

123. (D) Both export and import demand are price elastic.

The effectiveness of currency depreciation in improving a trade balance depends on how much the quantities of exports and imports change in response to new prices. When both export and import demand are price elastic, a small change in price leads to a large change in volume. This ensures that the total value of exports rises significantly and the total spending on imports falls sharply. High elasticity maximizes the positive impact of the exchange rate adjustment.

124. (A) factor endowments; outputs of goods

The Rybczynski theorem analyzes the impact of changes in resource availability on an economy's production structure. It states that if the endowment of one production factor increases while prices and technology remain constant, the output of the good that uses that factor intensively will increase more than proportionally. Simultaneously, the output of the other good will decline. This theorem helps explain how the discovery of new resources or labor migration can fundamentally shift a nation's trade patterns.

125. (A) P-3, Q-4, R-1, S-2

Major milestones in global trade are defined by key agreements and their outcomes. The Uruguay Round was pivotal for creating the World Trade Organization. The TRIPS agreement established international standards for protecting intellectual property, while GATS introduced the first multilateral rules for trade in services. The Doha Round, although aiming for developmental goals, is characterized by its long-standing stalemates. These frameworks collectively govern the modern international trading system and its various components, from goods to services.

126. (B) The need to maintain a Balance of Payments surplus under all conditions.

Protectionism is often justified by arguments such as protecting infant industries, ensuring national defense, or pursuing strategic trade policies to help domestic firms gain a competitive edge. These goals focus on specific economic or security needs. However, attempting to maintain a balance of payments surplus at all times is not a valid economic argument. In a global system, a surplus for one country requires a deficit for another, and persistent imbalances can lead to instability and trade conflicts.

127. (D) 1 Euro costs 1.10 US Dollars.

Exchange rate quotes indicate the price of one currency in terms of another. In the EUR/USD 1.10 format, the first currency is the base currency and the second is the quote currency. This means that a single unit of the Euro is worth one dollar and ten cents. Understanding these quotes is essential for international trade and finance, as it determines the cost of converting money for purchasing foreign goods, services, or assets in the global market.

128. (B) P, Q, and R only

Balance of payments disequilibrium can take several forms depending on its cause and duration. Cyclical imbalances result from varying business cycles, while structural issues stem from fundamental shifts in demand or technology. A large, persistent gap is known as a fundamental disequilibrium. Contrary to the final statement, not all imbalances are self-correcting; many require significant policy intervention, such as changes in exchange rates or fiscal adjustments, to restore stability and ensure sustainable economic relations.

129. (C) FDI involves gaining a significant degree of control or influence over a foreign enterprise, while FPI does not.

International capital flows are categorized by the intent and nature of the investment. Foreign direct investment involves acquiring a lasting interest and a significant level of management control in a company based in another country. In contrast, foreign portfolio investment consists of buying stocks, bonds, or other financial assets without seeking control over the entity. FDI is generally more stable and long-term, whereas FPI is more liquid and can be quickly withdrawn, leading to higher market volatility.

130. (A) Any trade concession or advantage granted by one WTO member to another must be extended to all other WTO members.

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The most-favored-nation principle is a cornerstone of the multilateral trading system, ensuring non-discrimination among WTO members. It requires that if a country lowers a tariff or opens its market to one member, it must immediately grant the same benefit to all other members. This rule prevents favoritism and ensures that all nations, regardless of their economic size, can compete on equal terms. It promotes transparency and helps to spread trade liberalization globally through a single unified standard.

131. (C) A is true but R is false.
The World Bank is an international organization specifically designed to provide long-term financial assistance and project funding to support economic development and poverty reduction. This primary mandate differs significantly from the International Monetary Fund, which is the institution responsible for addressing short-term balance of payments crises and maintaining global monetary stability. While both institutions work toward international economic health, their specific timeframes and objectives are distinct. Therefore, the assertion is accurate, but the reason provided is factually incorrect.

132. (B) Shifts purchase from a low-cost external producer to a high-cost producer within the trade union.
Trade diversion occurs when a regional trade agreement causes a country to stop importing from an efficient producer outside the bloc and start buying from a less efficient producer within the union. This happens because the external producer now faces a tariff while the partner producer does not. This shift reduces global economic efficiency and can lower the overall welfare of the importing country. It is a key reason why regional trade blocs may not always be beneficial.

133. (C) Domestic absorption (C + I + G)
In the absorption approach to the balance of payments, the term 'absorption' refers to the total amount of goods and services consumed by a nation's residents, including individuals, businesses, and the government. It is the sum of private consumption, domestic investment, and government spending. The trade balance is then understood as the difference between the total national output and this level of domestic absorption. If output exceeds absorption, the country will experience a trade surplus and vice-versa.

134. (C) P, Q, R, and T only
Modern trade theory is built on several foundational concepts that explain global commerce patterns. The Ricardian and Heckscher-Ohlin models identify labor productivity and factor endowments as primary drivers of trade. Vernon's product life cycle theory describes how production locations shift as products mature, while intra-industry trade is explained by economies of scale. However, the Leontief paradox is famous precisely because it contradicted, rather than confirmed, the predictions of the Heckscher-Ohlin model for the United States economy.

135. (A) Making a risk-free profit from price discrepancies in different markets.
Arbitrage is a financial practice that involves taking advantage of price differences for the same asset in different markets. In foreign exchange, an arbitrageur simultaneously buys a currency in one market where it is cheaper and sells it in another where it is more expensive. This activity is essentially risk-free and helps to equalize exchange rates globally. It is distinct from speculation, which involves taking risks, and hedging, which focuses on protecting against future price changes.

136. (B) It reduces uncertainty for international traders and investors.
A flexible exchange rate system offers several advantages, such as providing continuous adjustment for trade imbalances and allowing for an independent domestic monetary policy. It also helps insulate the economy from external shocks through automatic currency movements. However, a major disadvantage is that it can increase uncertainty for businesses and investors. Constant fluctuations in currency values make it difficult to predict the final cost of international transactions and the future value of foreign investments and earnings.

137. (A) Both Statement I and Statement II are true.

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In international trade theory, a 'small country' is one that has no influence over world market prices due to its limited share of global trade. Consequently, when such a country imposes a tariff, it cannot force foreign producers to lower their prices. The entire cost of the tariff is passed on to domestic consumers in the form of higher prices. This means the country is a price-taker, and its policy actions do not change its external terms of trade.

138. (A) The sum of MPS and MPM increases.

The foreign trade multiplier represents the total change in national income resulting from an initial change in autonomous spending, such as exports. Its value is inversely related to the leakages from the domestic income stream. These leakages primarily consist of the marginal propensity to save and the marginal propensity to import. When the sum of these two propensities increases, more money leaves the circular flow of income, which leads to a smaller overall multiplier effect.

139. (C) Credit in the current account (as a unilateral transfer).

The current account of the balance of payments includes trade in goods and services, as well as primary and secondary income flows. Foreign aid is categorized as a unilateral transfer because it involves a one-way flow of resources from one country to another without any direct economic return. When a country receives such aid, it is recorded as a credit in the current account because it represents an inflow of funds from the rest of the world.

140. (A) R, S, P, Q

International trade theory has evolved significantly over centuries. It began with Adam Smith's theory of absolute advantage in the late eighteenth century. David Ricardo followed in the early nineteenth century with the principle of comparative advantage. In the early twentieth century, Heckscher and Ohlin developed their factor proportions theory. Finally, Raymond Vernon introduced the product life cycle theory in the mid-1960s to explain trade in modern manufactured goods. This progression reflects the increasing complexity of global commerce.

141. (D) Purchasing Power Parity

Purchasing power parity is an economic theory that links exchange rates to the relative price levels between countries. It is based on the law of one price, which suggests that in an efficient market without barriers, identical goods should sell for the same price everywhere when converted to a common currency. According to PPP, the exchange rate between two nations will adjust until their domestic purchasing powers are equalized, ensuring long-term equilibrium in the foreign exchange market.

142. (B) Offset the injurious effect of imports being sold at unfairly low prices.

Anti-dumping duties are specific trade measures used by governments to protect domestic industries from foreign products sold at less than their fair value. Dumping occurs when an exporter sells a product in another country at a price lower than its domestic price or production cost. By imposing these duties, the importing country aims to raise the price of the dumped good, thereby neutralizing its unfair competitive advantage and preventing injury to local producers and their workers.

143. (C) The harmonization of economic policies and a common currency.

An economic union represents the most advanced stage of regional integration among sovereign nations. It encompasses all the features of a common market, such as free internal trade and factor mobility. Beyond these, member countries commit to the total harmonization of their fiscal and monetary policies. This often involves the creation of a single central bank and the adoption of a common currency, which eliminates exchange rate risks and significantly deepens the level of economic interdependence.

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144. (D) A domestic resident's vacation in a foreign country.

In balance of payments accounting, a debit entry represents any transaction that leads to an outflow of foreign currency from the home country. When a domestic resident travels abroad for a vacation, they must spend money on foreign goods and services, which requires selling domestic currency to buy foreign currency. This expenditure is an import of services. Conversely, selling domestic bonds, receiving dividends, or

exporting software all bring currency into the country and are thus recorded as credits.

145. (C) P-4, Q-3, R-2, S-1
Currency markets involve different types of exchange rates and trading strategies. The spot rate is the price for immediate currency delivery, while the forward rate is the price agreed upon for a future transaction. Hedging is a risk-reduction technique where participants use contracts to protect against unfavorable price movements. In contrast, speculation is a profit-seeking activity where traders deliberately take on risk by betting on the future direction of exchange rates. Each concept serves a distinct purpose.

146. (B) All of the above.
The infant industry argument suggests that new domestic industries need temporary protection to become globally competitive. However, this policy faces several significant criticisms. Identifying which specific industries will actually succeed is extremely difficult for governments. Furthermore, once protection is granted, it often becomes politically difficult to remove due to lobbying by the affected industries. Many economists also argue that direct subsidies are a more transparent and efficient way to support these industries than imposing trade-distorting tariffs.

147. (C) Countries export goods that use their relatively abundant factors intensively.
The Heckscher-Ohlin theory explains international trade patterns based on differences in factor endowments across nations. It predicts that a country will possess a comparative advantage in, and thus export, those goods that require a large amount of the factors it has in relative abundance, such as capital or labor. Conversely, it will import goods that intensively use its relatively scarce factors. This framework shifts the focus from labor productivity alone to a broader analysis of national resources.

148. (D) P, Q, R, and S
The World Bank Group is a complex organization composed of several specialized institutions, each with a unique mandate. The IBRD provides loans to middle-income governments, while the IDA offers concessional funds to the poorest nations. The IFC focuses on supporting the private sector in developing countries, and MIGA provides insurance against political risks to encourage foreign investment. Together, these entities work to promote economic growth, reduce poverty, and foster sustainable development across the global economy.

149. (A) Switch domestic and foreign spending away from foreign goods and towards domestic goods.
Expenditure-switching is a policy intended to improve the trade balance by changing the relative prices of domestic and foreign goods. A currency devaluation is a primary example, as it makes imports more expensive and domestic products cheaper. This encourages local residents to buy domestic substitutes instead of foreign ones and makes exports more attractive to foreigners. The goal is to redirect spending toward domestic production without necessarily reducing the total level of national expenditure or overall economic activity.

150. (B) The exchange rate is primarily market-determined, but the central bank intervenes to influence it.
A managed float, often called a 'dirty float', is an exchange rate regime that combines market forces with occasional government intervention. While the value of the currency is primarily determined by the supply and demand in the foreign exchange market, the central bank may step in to buy or sell currency to prevent excessive volatility or to achieve specific economic objectives. This system allows for flexibility while providing a mechanism for the government to maintain some level of stability.

151. (A) Both A and R are true and R is the correct explanation of A.
Regional trade blocs, such as customs unions, have complex impacts on economic welfare. While they can create trade between members, they can also divert trade away from more efficient producers outside the bloc. If the welfare loss from this trade diversion is greater than the gain from trade creation, the overall impact on both the members and the world is negative. Therefore, both statements correctly identify the potential risks of regionalism and explain why such agreements are not always beneficial.

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152. (B) Phillips Curve

International trade theory utilizes several graphical and mathematical tools to analyze production, consumption, and exchange. Production possibility frontiers show what a country can produce, while community indifference curves represent national welfare preferences. Offer curves help determine the equilibrium terms of trade between nations. In contrast, the Phillips curve is a tool used in macroeconomics to illustrate the relationship between inflation and unemployment within an economy. It is not used to explain the patterns or gains from international trade.

153. (C) Capital flight.

Capital flight refers to a rapid and large-scale outflow of financial assets and capital from a country. This phenomenon is usually triggered by economic instability, political unrest, or a sudden loss of investor confidence in the nation's future. Such outflows can lead to a sharp depreciation of the currency, a decline in foreign exchange reserves, and severe financial crises. It is often seen in developing countries during times of high inflation, excessive debt, or significant changes in government policy.

154. (A) R and S only

Tariffs and quotas are both trade barriers that raise domestic prices and protect local producers. However, they differ in several ways. Quotas are often less transparent and more difficult to administer than simple tariffs. Furthermore, while a tariff always generates revenue for the government, a quota creates 'quota rent' that typically goes to the license holders rather than the state. Identifying these differences is crucial for understanding the welfare and fiscal implications of various trade policy choices.

155. (A) Labor standards in agriculture

The WTO Agreement on Agriculture is a comprehensive framework designed to reform trade in the agricultural sector and make it more market-oriented. It focuses on three main pillars: increasing market access by reducing tariffs, limiting domestic support that distorts production, and phasing out export subsidies. While the agreement addresses many economic and trade-related issues, it does not cover social or labor standards within the agricultural industry. These issues are typically managed by other international bodies like the ILO.

156. (B) $\left(\frac{\text{Index of Export Price}}{\text{Index of Import Price}}\right) \times 100$

The net barter terms of trade, also known as the commodity terms of trade, is a widely used measure of a country's trade position. It is calculated as the ratio of an index of export prices to an index of import prices, usually expressed as a percentage. An increase in this index indicates that export prices have risen faster than import prices, allowing the country to buy more imports for any given quantity of its exports, thereby improving its welfare.

157. (B) Both Statement I and Statement II are false.

The theory of comparative advantage demonstrates that international trade is a positive-sum game, meaning all participating nations can benefit simultaneously. Contrary to mercantilist views, a country does not need an absolute advantage in any good to gain from trade. Instead, benefits arise when countries specialize in goods where they have a lower opportunity cost. Even a nation that is less efficient in producing everything can improve its welfare by trading with more productive partners, making both statements factually incorrect.

158. (B) The balance of trade + net services + net unilateral transfers.

The current account is a major component of the balance of payments, recording the flow of real resources between a country and the rest of the world. It includes the balance of trade—the difference between goods exports and imports—as well as net payments for services like tourism and transportation. Additionally, it accounts for net primary income and net secondary income, which includes unilateral transfers such as foreign aid and remittances. The sum of these items represents the current account balance.

159. (C) Prohibitive tariff

A prohibitive tariff is a trade barrier set at such an extremely high level that it effectively stops all imports of a specific good into a country. By making foreign products significantly more expensive than domestic alternatives, the tariff chokes off demand for imports entirely. The

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primary purpose of such a duty is to provide total protection for domestic producers from foreign competition, although it results in higher prices for consumers and eliminates all potential gains from international trade for that product.

160. (D) The International Monetary Fund (IMF)
The International Monetary Fund was established at the Bretton Woods Conference in 1944 to oversee the international monetary system. Its primary goals are to promote exchange rate stability, facilitate the expansion of global trade, and provide financial assistance to member countries facing balance of payments problems. By acting as a monitor of economic policies and a lender of last resort, the IMF plays a central role in maintaining financial order and preventing the type of economic crises seen in the past.

161. (B) Reciprocal demand
While comparative advantage establishes the outer limits within which trade can occur, the theory of reciprocal demand explains where the final terms of trade will settle. It posits that the equilibrium price is determined by the relative strength of each country's demand for the other nation's product. This concept, developed by John Stuart Mill, highlights that the gains from trade are distributed according to which country has a stronger or more urgent need for the other's goods.

162. (A) Exporting country 'voluntarily' agrees to limit its exports.
A voluntary export restraint is a unique trade barrier where an exporting nation agrees to limit the quantity of a specific good it sends to an importing country. These agreements are often reached to avoid the threat of even harsher protectionist measures, such as tariffs or quotas, from the importing government. While they function like an import quota, the administration and the extra profits, or quota rents, typically remain with the exporters in the foreign nation.

163. (C) ₹80,000
The absolute version of purchasing power parity suggests that in the absence of trade barriers and costs, the price of an identical good should be the same across countries when converted to a single currency. If a laptop costs one thousand dollars in the United States and the exchange rate is eighty rupees per dollar, the price in India should be eighty thousand rupees. This simple calculation reflects the theory's core idea that exchange rates should equalize purchasing power globally.

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164. (D) The productivity of a country's export sector.
The single factoral terms of trade is an analytical index that refines the basic net barter terms of trade. It is calculated by multiplying the net barter terms of trade by an index of productivity in the country's export industries. This measure helps determine whether an improvement or deterioration in a country's trade position is due to price changes or advancements in production efficiency. It provides a more comprehensive view of how trade impacts a nation's real economic welfare.

165. (A) P-1, Q-2, R-4, S-1
Regional integration groups are categorized by the depth of their economic cooperation. The European Union is the most integrated, functioning as a full economic and monetary union. MERCOSUR operates as a customs union with shared external trade policies. In contrast, both NAFTA and ASEAN are primarily free trade areas, focusing on removing internal barriers while allowing member countries to maintain their own external tariffs. Understanding these distinctions is key to analyzing how these blocs influence global trade patterns.

166. (B) Devalue or revalue its currency with IMF approval.
The Bretton Woods system was characterized by fixed but adjustable exchange rates. If a country faced a 'fundamental disequilibrium'—a persistent and large balance of payments deficit or surplus that could not be corrected through domestic policies—it was permitted to change the value of its currency. This process of devaluation or revaluation required formal consultation and approval from the IMF. This mechanism provided a way to restore international competitiveness while maintaining the overall stability of the fixed-rate system.

167. (D) Theory of trade under imperfect competition (intra-industry trade).

Traditional trade theories based on comparative advantage struggle to explain why countries exchange very similar products. However, theories of trade under imperfect competition address this by focusing on product differentiation and economies of scale. Consumers often desire a wide variety of goods, and firms specialize in specific models or brands to lower their average costs. This leads to intra-industry trade, where a nation like Germany may both export high-end cars and import different types of vehicles from abroad.

168. (A) P, Q, and R only

The balance of payments provides a systematic record of all economic transactions between a country and the rest of the world. Because it uses double-entry bookkeeping, the statement always balances in an accounting sense. A current account deficit indicates that a nation's spending on foreign goods and services exceeds its earnings, requiring it to borrow from abroad. However, a surplus means the country is earning more than it spends, leading to an increase in its foreign exchange reserves.

169. (C) Taking a position (buying or selling a currency) with the expectation of making a profit from future price movements.

Speculation in the foreign exchange market is a deliberate financial activity where participants take on risk to profit from anticipated changes in currency values. Unlike hedgers who seek to avoid risk or arbitrageurs who exploit current price differences, speculators bet on future trends. They buy a currency they expect to appreciate or sell one they expect to depreciate. While often criticized for increasing volatility, speculation can also provide liquidity and help markets discover equilibrium prices over time.

170. (A) Led to the creation of the World Trade Organization.

The Uruguay Round was the most significant and comprehensive set of trade negotiations in history. Spanning from 1986 to 1994, it went far beyond traditional tariff reductions on goods to include new areas like services, intellectual property, and agriculture. The most monumental outcome of this round was the agreement to replace the GATT with a formal, permanent international body: the World Trade Organization. This change established a more robust and enforceable framework for managing modern global economic relations.

171. (A) Both A and R are true and R is the correct explanation of A.

The Stolper-Samuelson theorem establishes a direct link between trade-induced changes in product prices and the internal distribution of income. When a country opens to trade, the price of its export goods rises. Since these goods use the nation's abundant factor intensively, the demand and price for that factor increase. Conversely, the return to the relatively scarce factor used in the import sector falls. Both statements accurately describe this economic relationship and the logic that connects trade to factor returns.

172. (B) Balance of trade

The balance of trade is a specific component of a country's current account that tracks the difference between the total value of exported and imported physical goods. A positive balance, where exports exceed imports, is known as a trade surplus, while a negative balance is called a trade deficit. While often used as a shorthand for a nation's overall economic health, it only represents one part of the broader balance of payments, excluding services and financial flows.

173. (C) The pegged exchange rate is adjusted frequently and in small increments.

A crawling peg is a hybrid exchange rate system where a country fixes its currency's value to another currency or a basket of currencies but allows the peg to change over time. These adjustments are typically small and made at regular intervals based on indicators like inflation differentials or trade performance. This system provides more flexibility than a strictly fixed rate while offering more stability and predictability for businesses and investors than a purely floating exchange rate.

174. (B) Q, R, and S only

Dynamic gains from trade refer to the long-term benefits that result from changes in an economy's productive capacity and market environment. These include increased competition, which drives innovation and quality, and access

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to larger global markets that allow firms to achieve economies of scale. Furthermore, trade facilitates the faster spread of technology and new ideas between nations. While static gains focus on immediate resource reallocation and consumption, dynamic gains contribute to sustained economic growth and development over time.

175. (A) Loans with long repayment terms and little to no interest.

The International Development Association is the part of the World Bank that provides help to the poorest nations. It is known as the 'soft loan' window because its financial terms are much more favorable than those found in private markets or the bank's main lending arm. These 'credits' typically have very long repayment periods and charge little to no interest. This supportive lending is essential for countries that lack the creditworthiness to borrow at standard commercial rates.

176. (B) Product Life Cycle Model - The role of innovation and maturity of products

Different trade theories highlight various drivers of international commerce. The product life cycle model explains trade through the evolution of products from innovation to standardization. In contrast, the Ricardian model is based on differences in technology and labor productivity, while the Heckscher-Ohlin model focuses on factor endowments. The Linder hypothesis emphasizes similarities in demand and income levels. Correctly pairing these theories with their core assumptions is essential for understanding the diverse reasons why countries engage in international trade.

177. (C) Statement I is true, but Statement II is false.

In a purely floating exchange rate system, the value of a currency is determined entirely by market supply and demand. If a country has a balance of payments deficit, the excess supply of its currency will cause it to depreciate, which automatically helps correct the imbalance. One of the defining features of a pure float is that the central bank does not intervene to influence the rate. Therefore, the first statement is accurate, but the second is factually incorrect.

178. (B) The holders of the import licenses.

A quota rent is the extra profit that arises when the government restricts the supply of an imported good. Because the quantity is limited, the domestic price of the good rises above the world price. This price difference creates a windfall gain for those who have been granted the legal right to import the restricted goods. Unlike a tariff, where this extra value is collected by the government as revenue, quota rents typically accrue to private license holders or foreign firms.

179. (C) General Agreement on Tariffs and Trade.

The General Agreement on Tariffs and Trade was a multilateral treaty established in 1947 to promote international trade by reducing or eliminating trade barriers such as tariffs and quotas. For nearly five decades, it served as the primary framework for global trade negotiations and the resolution of trade disputes among member nations. Although it was intended to be temporary, it laid the essential foundation for the modern trading system until it was officially replaced by the WTO in 1995.

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180. (D) Facilitate payments between countries with different currencies.

The primary purpose of the foreign exchange market is to enable the conversion of one national currency into another. This is a fundamental requirement for international trade, investment, and travel, as most transactions must be settled in the local currency of the seller. By providing a global platform for buyers and sellers to exchange money, this market ensures that international payments can be made efficiently and reliably, supporting the growth of global commerce and financial interdependence between nations.

181. (C) The preferences and welfare of a country as a whole.

A community indifference curve is a theoretical tool used in international trade to represent the various combinations of two goods that provide the same level of satisfaction or welfare to a whole nation. It is an extension of individual indifference curves to the national level. These curves help economists analyze how changes in trade, such as new prices or tariffs, affect a country's overall well-being and consumption choices, assuming that individual preferences can be meaningfully aggregated.

182. (A) Ad valorem duty

Trade barriers are generally divided into two categories: tariffs and non-tariff barriers. Tariffs are taxes imposed on imported goods, such as an ad valorem duty, which is a percentage of the product's value. Non-tariff barriers include a wide range of other policy measures that restrict trade, such as quotas, technical standards, health regulations, and voluntary export restraints. These barriers can be more complex and less transparent than simple taxes, often creating significant hurdles for international commerce.

183. (D) The multiplier becomes smaller because the marginal propensity to import acts as a larger leakage from the income stream.

The trade multiplier measures how an initial change in spending affects national income in an open economy. The size of the multiplier depends on leakages, such as saving and imports. While a tariff reduces the volume of imports, it also changes how income is spent. If the marginal propensity to import is high, it acts as a significant leakage that reduces the overall multiplier effect. Therefore, trade policies that influence these propensities directly impact the magnitude of economic responses to spending changes.

184. (A) The Bretton Woods Conference

The foundations of the modern international financial system were laid at the Bretton Woods Conference in 1944. Representatives from forty-four nations gathered to design a new global order that would promote economic stability and reconstruction after World War II. The conference resulted in the creation of two key institutions: the International Monetary Fund to manage exchange rates and monetary stability, and the International Bank for Reconstruction and Development, which became the core of the World Bank Group.

185. (D) P-3, Q-4, R-1, S-2

International economics involves several fundamental concepts with distinct meanings. The exchange rate is simply the price of one currency in another. The balance of payments is a comprehensive record of a country's total economic interactions with the rest of the world. A tariff is a specific tax levied on imported goods to protect domestic industries or raise revenue. Finally, dumping is the practice of selling goods in a foreign market at prices below their domestic value or production cost.

186. (B) The differential in inflation rates between two countries.

The relative version of purchasing power parity is an economic theory suggesting that changes in the exchange rate between two currencies are primarily driven by the difference in inflation rates between the two countries. If one nation experiences higher inflation than its trading partner, its currency is expected to depreciate by an amount roughly equal to that inflation gap. This adjustment helps maintain the same relative purchasing power of the currencies over time in the global market.

187. (D) A country in a customs union shifts from a high-cost domestic producer to a low-cost producer within the union.

Trade creation is a positive economic effect of forming a customs union or free trade area. It occurs when the removal of internal tariffs allows a member country to stop producing a good at a high cost domestically and start importing it from a more efficient, lower-cost producer within the trade bloc. This shift leads to a more efficient allocation of resources within the union, lower prices for consumers, and an overall increase in economic welfare.

188. (C) P, Q, and R only

The Heckscher-Ohlin model is a cornerstone of modern trade theory, explaining commerce based on differences in factor endowments. It assumes that technology is the same everywhere and predicts that trade will eventually equalize factor prices, like wages and interest, between nations. While it is a highly influential framework, the Leontief Paradox actually challenged its predictions empirically. Therefore, the first three statements accurately describe the model's assumptions and predictions, while the final statement misinterprets its relationship with Leontief's findings.

189. (C) Long-term changes in an economy's production or demand structure.

A structural disequilibrium in the balance of payments is caused by fundamental, long-lasting shifts in a country's economic environment.

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This might include a permanent decline in the global demand for a nation's primary export, the depletion of a major natural resource, or a significant change in technological capabilities. Unlike cyclical imbalances, these issues do not resolve themselves with the business cycle and typically require profound structural adjustments in the domestic economy to restore external balance and competitiveness.

190. (A) To establish minimum levels of protection for intellectual property rights that all member countries must adhere to.

The TRIPS agreement is a landmark WTO accord that integrates intellectual property into the global trading system. Its primary goal is to ensure that all member nations provide a consistent, minimum level of protection for various forms of intellectual property, including patents, copyrights, and trademarks. By setting these international standards, TRIPS aims to encourage innovation and technology transfer while reducing trade conflicts that arise from the infringement of intellectual property rights across different national borders.

191. (A) Both A and R are true and R is the correct explanation of A.

When a large country imposes a tariff, it significantly reduces its demand for foreign imports, which can force international suppliers to lower their prices to maintain sales. This process improves the large country's terms of trade by shifting some of the economic burden of the tariff onto foreign producers. Both statements accurately describe this strategic advantage and the underlying mechanism. While this increases the large country's welfare, it generally reduces global efficiency and harms the exporting nations.

192. (B) International Monetary Fund

The International Monetary Fund is the global institution responsible for overseeing the international monetary system and ensuring financial stability. It performs regular 'surveillance' by monitoring the economic and financial policies of its member countries to identify potential risks. Furthermore, it provides essential financial assistance to nations facing balance of payments problems, helping them stabilize their economies and restore growth. This role distinguishes it from other organizations like the World Bank, which focuses on long-term development and poverty reduction.

193. (C) Immiserizing growth

Immiserizing growth is a theoretical situation where economic growth, particularly if it is biased toward the export sector, leads to a net reduction in a country's welfare. This happens if the growth causes a massive increase in the global supply of the country's exports, leading to such a severe deterioration in its terms of trade that the loss from lower prices outweighs the gains from increased production. This concept highlights that more output does not always lead to better outcomes.

194. (B) P, Q, and R only

The current account of the balance of payments records the flow of real resources and income between a nation and the rest of the world. It specifically includes trade in physical goods and services, as well as unilateral transfers like gifts and grants. In contrast, foreign direct investment and portfolio investment involve the transfer of ownership of financial assets and are therefore recorded in the capital and financial account. Correctly distinguishing between these accounts is fundamental to international accounting.

195. (A) The forward exchange rate is lower than the spot exchange rate.

A forward discount occurs when the price of a currency for future delivery is lower than its current market price for immediate delivery. This situation typically suggests that the market expects the currency to lose value in the future or that interest rates in that country are higher than in others. Investors use these rates to assess market sentiment and to hedge against potential depreciation. The discount reflects the market's current consensus on the currency's future performance.

196. (B) Offer curves

The theory of reciprocal demand, which explains how equilibrium terms of trade are determined, is visually represented using offer curves. These curves show the various quantities of a country's export good that it is willing to trade for different quantities of an import good. The

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point where two nations' offer curves intersect represents the equilibrium terms of trade. This graphical tool effectively combines the concepts of comparative advantage and domestic demand to show how gains from trade are divided.

197. (C) Statement I is true, but Statement II is false.
The European Union is the world's most prominent example of an economic and monetary union, characterized by deep policy integration and a shared market. However, not all twenty-seven member nations have adopted the Euro as their currency. Several countries, such as Denmark and Sweden, maintain their own national currencies for various political and economic reasons. Therefore, while the first statement correctly identifies the EU's high level of integration, the second statement is an incorrect overgeneralization of its monetary policy.

198. (B) Lending terms and target countries.
While both the IBRD and IDA are parts of the World Bank Group, they serve very different purposes. The IBRD provides loans to middle-income and creditworthy low-income governments at market-related interest rates. In contrast, the IDA focuses on the world's poorest countries, providing 'credits' with no interest and very long repayment periods. This distinction ensures that the World Bank can provide appropriate financial support to nations regardless of their specific stage of development or creditworthiness.

199. (C) Currency devaluation/depreciation on the trade balance.
The Marshall-Lerner condition is a critical economic rule used to predict whether a currency devaluation will successfully improve a country's trade balance. It states that for an improvement to occur, the sum of the absolute values of the price elasticities of demand for exports and imports must be greater than one. This ensures that the quantity of trade adjusts enough to compensate for the change in prices. It is a fundamental tool for analyzing the effectiveness of exchange rate policies.

200. (A) R, Q, S, P
The history of international economic cooperation is marked by the creation of several key institutions and agreements in a specific order. The IMF was established first in 1944. This was followed by the creation of the European Economic Community in 1957, which was an early predecessor to the EU. Much later, NAFTA was established in 1994 to create a North American free trade zone. Finally, the World Trade Organization was officially founded in 1995 to manage global trade.

201. (B) Homogeneous products
Monopolistic competition is a market structure characterized by several key features that influence international trade patterns. These include a large number of firms and the production of differentiated products, where each firm's good is slightly different from its competitors'. This differentiation, combined with economies of scale, is a primary driver of intra-industry trade. Because firms in this market structure compete through branding and unique features, the assumption of homogeneous products, which is central to perfect competition models, does not apply here.

202. (A) All economic transactions between its residents and residents of other countries during a period.
The balance of payments is a comprehensive accounting statement that provides a systematic record of all economic interactions between the residents of a country and the rest of the world over a specific timeframe, usually a year. It includes transactions related to goods, services, income flows, and the transfer of financial assets. By tracking these diverse activities, the balance of payments offers a complete picture of a nation's international economic position and its financial relationship with other countries.

203. (C) Making exports cheaper in foreign currency and imports costlier in domestic currency.
Devaluation is a deliberate policy to lower the value of a country's currency relative to others. This change alters relative prices in international markets. Domestically produced goods become more affordable for foreign buyers, potentially boosting export volumes. At the same time, foreign goods become more expensive for local residents, which typically discourages imports. By making exports more competitive and imports less attractive, devaluation aims to

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reduce a trade deficit and improve the overall balance of payments position.

204. (D) The strategic trade policy theory

Strategic trade policy theory suggests that governments can use interventions, such as subsidies or R&D support, to help domestic firms gain a competitive advantage in global markets. This approach is particularly relevant in industries with high barriers to entry and significant economies of scale. By supporting 'national champions' in these sectors, a country can capture a larger share of global profits. This theory contrasts with traditional views that emphasize natural resource endowments or labor productivity as the sole drivers of trade.

205. (C) Implementing protectionist measures like tariffs and competitive devaluation.

A beggar-thy-neighbor policy refers to economic strategies that aim to improve a country's domestic situation at the expense of its trading partners. These measures include imposing high tariffs to protect domestic jobs or engaging in competitive devaluation to gain an unfair advantage in export markets. While these policies may provide a short-term boost to the home economy, they often lead to retaliation from other countries and a general decline in global trade, ultimately harming everyone involved.

206. (B) The holder of the import license.

Both tariffs and quotas restrict imports and raise domestic prices, but they distribute the resulting economic surplus differently. A tariff is a tax collected by the government, which generates public revenue. In contrast, a quota creates a price gap without a tax. This extra value, known as quota rent, typically goes to the individuals or firms that hold the legal licenses to import the restricted goods. This transfer of wealth from consumers to private license holders is a key characteristic of quotas.

207. (D) MERCOSUR

MERCOSUR is a major South American trade bloc that functions as a customs union. Its member countries, including Brazil and Argentina, have agreed to eliminate internal tariffs and adopt a common external tariff for trade with non-member nations. This level of integration is deeper than that of a free trade area, such as the USMCA or SAFTA, where each member maintains its own individual trade policies toward the rest of the world. MERCOSUR aims to promote regional economic growth and cooperation.

208. (A) The transactions of a country's central bank in foreign assets.

The official reserve account is a key part of the balance of payments that records the actions taken by a country's central bank to settle imbalances. It tracks changes in the nation's holdings of foreign currencies, gold, and special drawing rights. When there is a net deficit in other accounts, the central bank must sell these assets to cover the gap. Conversely, a surplus leads to an increase in reserves. This account ensures the overall balance of payments stays in equilibrium.

209. (C) To ensure that the borrowing country implements economic reforms to correct its BOP problem.

When the International Monetary Fund provides financial assistance to a country, it typically attaches specific conditions to the loan. This policy, known as conditionality, is designed to ensure that the borrowing nation implements necessary economic reforms, such as fiscal discipline or structural changes. The goal is to address the underlying causes of the country's balance of payments crisis and ensure that it can eventually return to financial stability and repay the loan. This process protects both the borrower and the IMF's resources.

210. (A) The Linder Hypothesis.

Staffan Linder's hypothesis suggests that a nation's export patterns are primarily determined by its domestic demand structure. According to this theory, firms first develop products for their home market. Once they achieve success domestically, they begin to export these goods to countries with similar per capita income levels and consumer preferences. This explains why a significant portion of international trade occurs between developed nations with similar economies, rather than being solely driven by differences in factor endowments or labor productivity.

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211. (D) Price increases, quantity decreases.
An import quota is a direct physical limit on the amount of a foreign good that can enter a country. By restricting the total supply available in the domestic market, the quota forces the equilibrium price of the imported good to rise. Consequently, consumers face higher costs while the quantity of imports allowed into the country is reduced to the specified limit. This policy protects domestic producers from competition but often results in a net welfare loss for the importing nation's economy.

212. (B) It had a binding dispute settlement mechanism similar to the WTO's.
The General Agreement on Tariffs and Trade was a multilateral treaty that successfully reduced global trade barriers for several decades. While it provided a framework for resolving disagreements, its dispute settlement process was relatively weak and required consensus to adopt rulings, allowing any country to block a decision. This is a major difference from the WTO, which was established in 1995 with a formal, binding dispute settlement mechanism that has much greater authority to enforce trade rules and authorize sanctions.

213. (C) Forward exchange rates.
The interest rate parity condition is a fundamental principle in international finance that links the financial and currency markets. it suggests that the difference in interest rates between two countries must be equal to the difference between the spot exchange rate and the forward exchange rate. This relationship ensures that there are no risk-free opportunities for arbitrage, as any gains from a higher interest rate in one country would be offset by the cost of hedging the exchange rate.

214. (D) It can export fewer units to buy the same amount of imports.
An improvement in a country's terms of trade means that the price of its exports has risen relative to the price of its imports. This shift in relative prices increases the nation's purchasing power on the global market. Essentially, the country can now trade a smaller quantity of its domestic goods for the same volume of foreign goods. This effectively raises the real national income and improves the overall economic well-being of the country, as it gains more from its participation in trade.

215. (A) The country's output rises relative to its domestic absorption.
The absorption approach to the balance of payments focuses on the relationship between total national income and total domestic spending. For a currency devaluation to successfully improve the trade balance, it must lead to a situation where the country's total production, or output, increases more than its domestic consumption, or absorption. This approach highlights that purely monetary or price changes must influence these real variables to effectively correct a trade deficit and ensure sustainable economic relations with the rest of the world.

216. (B) Long-term loans for reconstruction and development.
The World Bank is an international financial institution with a primary mandate to foster long-term economic development and poverty reduction. It achieves this by providing loans and grants to developing countries for major projects in areas such as infrastructure, health, and education. While the IMF focuses on short-term financial stability, the World Bank targets structural improvements that can take years to implement and yield results. This long-term focus is essential for helping nations build sustainable economies and improve living standards.

217. (B) Comparative advantage.
In the Ricardian model, the pattern of international trade is determined by the principle of comparative advantage. This theory posits that countries should specialize in producing and exporting those goods that they can produce at a lower opportunity cost compared to other nations. Even if one country is more efficient in producing everything, trade will still be mutually beneficial if each nation focuses on its relatively most efficient industries. This maximizes global output and allows all trading partners to consume more.

218. (A) Government procurement of services for its own use

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The General Agreement on Trade in Services identifies four specific modes through which services can be traded globally, including cross-border supply and commercial presence. However, the agreement specifically excludes services provided in the exercise of governmental authority and the procurement of services by government agencies for their own internal use. These areas are typically managed under separate rules, such as the WTO Agreement on Government Procurement. Understanding these exclusions is vital for identifying the legal scope of multilateral trade rules in services.

219. (C) A country is a net lender to the rest of the world.

A current account surplus indicates that a country's total earnings from exports, services, and transfers exceed its total spending on foreign goods and services. This surplus means the country is accumulating foreign assets or reducing its foreign liabilities, effectively acting as a net lender to other nations. In the balance of payments framework, this current account surplus must be matched by an equivalent deficit in the capital and financial accounts, reflecting the outflow of investment funds to the world.

220. (D) The Heckscher-Ohlin theory

The Leontief paradox is a famous empirical finding that challenged the core predictions of the Heckscher-Ohlin theory. While the theory suggested that capital-abundant countries like the United States should export capital-intensive goods, Wassily Leontief's research showed that US exports were actually more labor-intensive than its imports. This discovery forced economists to reconsider the simple capital-labor model and led to the development of more complex trade theories that account for factor skills, technology, and natural resources as significant drivers.

221. (C) A reduction in global trade efficiency.

Trade diversion is a potential negative consequence of regional trade agreements like customs unions. It occurs when members of the union start importing from a less efficient producer within the bloc because of the removal of internal tariffs, rather than buying from a more efficient producer outside the bloc. This shift represents a misallocation of resources and a reduction in overall global trade efficiency. While the agreement may benefit member countries, it can lead to a net loss for the world economy.

222. (B) Dumping

Dumping is a pricing strategy used in international trade where a firm sells its products in a foreign market at a price significantly lower than its cost of production or its domestic price. This practice is often used to quickly gain market share or to drive out local competitors. Because it creates an unfair competitive advantage and can injure domestic industries in the importing country, most nations have laws that allow them to impose anti-dumping duties to protect their markets.

223. (D) An appreciation of its currency.

In a flexible exchange rate regime, the value of a currency is determined by the market forces of supply and demand. If the global demand for a country's exports increases, foreign buyers must purchase more of that country's currency to pay for the goods. This surge in demand causes the currency's value to rise, which is known as appreciation. This adjustment eventually makes the country's exports more expensive and imports cheaper, helping the market return to a new equilibrium state.

224. (A) Providing short-to-medium term financial assistance to countries with balance of payments problems.

A central function of the International Monetary Fund is to maintain global financial stability by providing financial support to member countries facing balance of payments crises. When a nation cannot meet its international obligations, the IMF provides short-to-medium term loans to help it stabilize its economy. This assistance is typically accompanied by conditions requiring the country to implement economic reforms. By acting as a lender of last resort, the IMF prevents local crises from spreading and causing broader global instability.

225. (C) A percentage of the value.

An ad valorem tariff is a specific type of customs duty that is calculated as a fixed percentage of the total value of the imported good. For example, a ten percent tariff on a thousand-dollar product

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additional income stimulates further domestic spending, contributing to the expansion of the overall national economy.

291. (C) specific tariff.
A specific tariff is a trade barrier levied as a fixed monetary amount per physical unit of an imported commodity. Unlike ad valorem taxes, which depend on the value of the good, the specific tariff remains constant regardless of price fluctuations. This type of duty is straightforward to administer for products where units are easily defined, such as oil barrels.

292. (A) Domestic consumers of the good.
Domestic consumers of an imported good are the primary group harmed by the imposition of a tariff. The tax raises the domestic price of the product, forcing consumers to pay more and reducing their overall consumption levels. While domestic producers and the government gain through higher prices and revenue, the loss in consumer welfare is a direct consequence of protectionism.

293. (D) quota.
A quota is a non-tariff trade barrier that sets a strict quantitative limit on the amount of a specific commodity allowed to enter a country during a given period. This mechanism restricts the total supply of the imported good in the domestic market, usually leading to higher prices. It provides certain protection to domestic industries by capping foreign competition directly.

294. (B) dumping.
Dumping is a trade practice where a company sells its products in a foreign market at prices lower than those charged in its home market or below the cost of production. Firms may engage in this behavior to eliminate competitors, capture market share, or dispose of excess inventory. Importing countries often respond by imposing duties to protect their domestic industries.

295. (C) exporting country's government at the request of the importing country.
A voluntary export restraint is a trade barrier where the government of an exporting nation agrees to limit the quantity of goods sent to a specific importing country. This arrangement is usually made at the request of the importing country's government to protect its own domestic producers from intense competition without resorting to formal, legislated tariffs or import quotas.

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296. (D) the Most-Favored-Nation (MFN) principle.
The Most-Favored-Nation principle is a core tenet of the multilateral trading system that prohibits discrimination between trading partners. Under this rule, any trade advantage or concession granted by a member country to one partner must be extended immediately and unconditionally to all other members. It ensures that all nations within the global framework receive equal treatment in international trade relations.

297. (A) provide financial assistance to countries facing balance of payments difficulties.
The primary role of the International Monetary Fund is to maintain global financial stability by providing assistance to member nations facing balance of payments difficulties. It offers policy advice and short-to-medium-term financial support to help countries correct structural imbalances and stabilize their economies. This institution focuses on the health of the international monetary system rather than long-term developmental projects.

298. (B) The establishment of a more effective dispute settlement mechanism.
A significant institutional advancement of the World Trade Organization over its predecessor, the GATT, was the creation of a more robust and effective dispute settlement mechanism. This system provides a clear legal framework and timeline for resolving trade conflicts between member nations. It ensures that trade rules are enforceable, thereby increasing predictability and stability in the global commercial environment.

299. (B) trade diversion, where trade shifts from efficient non-members to less efficient members.
Trade diversion is a potential negative consequence of forming a regional trade bloc. It occurs when trade shifts from a more efficient producer outside the bloc to a less efficient producer within the bloc, simply because of the preferential tariff treatment members receive.

firms that have been granted the legal right, or license, to import the restricted goods into the country.

233. (C) A lower multiplier effect.
The foreign trade multiplier shows how an initial change in autonomous spending affects a country's national income. The size of this effect depends on leakages from the circular flow of income, which include saving and imports. The marginal propensity to import measures the portion of additional income that is spent on foreign goods. A higher tendency to import means that more money leaves the domestic economy during each round of spending, which leads to a smaller overall multiplier effect on income.

234. (D) World Bank Group
The World Bank Group is an international partnership of five organizations that work together to provide financial and technical support to developing countries. The International Bank for Reconstruction and Development and the International Development Association are the two most prominent members. IBRD focuses on lending to middle-income governments, while IDA provides concessional loans and grants to the poorest nations. Together, they are commonly referred to as the World Bank and play a leading role in global development and poverty reduction efforts.

235. (A) Hedging
Hedging is a financial strategy used by individuals and businesses to protect themselves against the risk of unfavorable exchange rate movements. One of the most common ways to hedge is by using a forward contract, which allows a participant to lock in a specific exchange rate for a transaction that will occur in the future. By doing so, they eliminate the uncertainty associated with currency volatility, providing stability and predictability for their international trade, investment, and financial planning activities.

236. (B) Increase by a greater proportion.
The Rybczynski theorem explores the relationship between factor endowments and production outputs in a two-good, two-factor economy. It states that if the endowment of one production factor increases while commodity prices and technology remain constant, the output of the good that uses that factor intensively will increase more than proportionally. At the same time, the output of the other good will decrease. This theorem helps economists understand how changes in a country's resources can lead to significant shifts in its production structure.

237. (C) Agreement on Agriculture (AoA)
The WTO Agreement on Agriculture classifies various forms of domestic subsidies into color-coded boxes based on their impact on trade. 'Green box' subsidies are considered minimally trade-distorting and are generally allowed, while 'amber box' subsidies are seen as trade-distorting and are subject to reduction commitments. The 'blue box' includes support that is tied to production-limiting programs. This system is designed to provide a clear framework for reducing government interventions that interfere with fair and open international trade in agricultural products.

238. (D) Worsen the trade balance.
The effectiveness of a currency devaluation in correcting a trade deficit depends on the price elasticities of demand for exports and imports. According to the Marshall-Lerner condition, a devaluation will only improve the trade balance if the sum of these elasticities is greater than one. If the sum is less than one, meaning demand is relatively unresponsive to price changes, the higher cost of current imports will outweigh any gains from increased exports. In this situation, devaluation will actually worsen the trade balance.

239. (A) Free Trade Area
A free trade area is the most basic form of regional economic integration. It involves an agreement between two or more countries to eliminate all internal tariffs and other barriers to trade in goods between them. However, unlike a customs union, each member country retains the right to set its own individual tariff rates on imports from countries outside the agreement. This arrangement allows for increased trade among members while preserving their autonomy in overall trade policy with the rest of the world.

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A closed economy reaches its internal equilibrium at the specific point where the production possibility frontier is tangent to the highest possible community indifference curve. This tangency point represents the simultaneous optimization of production efficiency and aggregate consumer satisfaction. It establishes the pre-trade price ratio, reflecting the domestic opportunity costs and consumer preferences within the isolated national market.

256. (B) its ability to produce a good with fewer resources than other countries.

Adam Smith's theory posits that a nation should focus on producing and exporting goods it can create more efficiently than its trading partners. This efficiency is measured by the ability to produce a specific volume of output using fewer resources or labor hours. By importing goods produced more efficiently elsewhere, countries maximize their overall economic welfare through specialization.

257. (D) There must be a difference in the relative opportunity costs of production.

David Ricardo demonstrated that mutually beneficial trade depends on differences in relative opportunity costs rather than absolute productivity. Even if one country is more efficient in producing everything, gains occur if nations specialize in goods where their productivity disadvantage is least. This ensures that resources are allocated toward their most efficient uses globally, enhancing total world output significantly.

258. (A) national factor endowments.

The Heckscher-Ohlin theory explains global trade patterns by emphasizing differences in national factor endowments, specifically capital and labor. It suggests that variations in the relative availability of these productive resources across countries determine their comparative advantages. Unlike models focusing solely on labor productivity, this framework identifies the specific resource base that allows industries to thrive in different regions.

259. (C) export capital-intensive goods and import labor-intensive goods.

According to the Heckscher-Ohlin model, a country with a high ratio of capital relative to labor will have a comparative advantage in capital-intensive industries. Consequently, such a nation is expected to export products that require significant capital investment for production. Simultaneously, it will import labor-intensive goods from countries where labor is the relatively abundant and cheaper factor.

260. (A) identifies the source of comparative advantage.

A significant distinction between these trade models is that the Heckscher-Ohlin framework explicitly identifies the underlying source of comparative advantage. While the Ricardian model simply assumes differences in labor productivity, the Heckscher-Ohlin approach attributes these differences to varying levels of factor endowments. This provides a more comprehensive explanation of why specific countries specialize in certain industrial sectors.

261. (D) intra-industry trade.

Modern trade models incorporating imperfect competition were developed to explain the phenomenon of intra-industry trade. This involves the simultaneous export and import of similar or differentiated products within the same industry category. Traditional theories based on constant returns to scale failed to account for this massive exchange of goods between developed nations with very similar resource endowments.

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262. (B) Increasing returns to scale.

Modern trade theories demonstrate that increasing returns to scale can serve as an independent basis for international trade. This concept implies that as a firm or industry expands its output, the average cost of production decreases. This allows countries with identical technology and factor endowments to gain from specializing in different product varieties to exploit these significant cost efficiencies.

263. (C) access to a greater variety of products.

Under monopolistic competition, trade allows consumers to access a much wider variety of differentiated products than a single domestic market could provide. As firms specialize in specific varieties to achieve economies of scale and serve global demand, the total selection of goods increases. This diversity enhances

benefit from trade if they specialize in producing and exporting those goods that they can produce at a relatively lower opportunity cost compared to other nations. Even if one country is less efficient than another in every industry, it should still focus on its relatively most efficient sectors. This specialization leads to an increase in total global output and higher consumption levels for all participating nations.

248. (A) Adjustable peg fixed exchange rates.
The Bretton Woods system was an international monetary framework established in 1944 to promote economic stability after World War II. It created a system of fixed exchange rates where the US dollar was pegged to gold and other currencies were pegged to the dollar. These rates were 'adjustable', meaning that a country could change its currency value if it faced a persistent and large balance of payments problem. This arrangement provided a balance between the stability of fixed rates and the flexibility needed for economic adjustment.

249. (C) A law requiring all imported fruits to be quarantined for 30 days.
Non-tariff barriers are diverse policy measures, other than traditional customs duties, that restrict international trade. While tariffs are simple taxes on goods, these barriers include quotas, licensing, and various technical or regulatory requirements. For example, a lengthy quarantine period for imported fruit acts as a significant barrier by increasing costs and potentially leading to spoilage. These measures are often used to protect domestic producers under the guise of safety or health standards, making them a common but complex tool in trade policy.

250. (A) Provide development assistance for long-term projects.
The World Bank functions primarily as an international financial institution providing long-term loans and grants for development projects. It focuses on reducing poverty and supporting economic growth in developing countries through infrastructure, education, and health initiatives. Unlike the International Monetary Fund, which addresses short-term balance of payments issues, the World Bank targets structural improvements and reconstruction to foster sustainable development across the global economy.

251. (B) The principle of increasing opportunity cost.
The concave shape of the production possibility frontier illustrates the principle of increasing opportunity cost. This phenomenon occurs because resources are not perfectly adaptable to the production of all goods. As an economy reallocates resources to increase the output of one specific commodity, it must sacrifice progressively larger amounts of alternative goods to achieve that gain.

252. (A) must be on its Production Possibility Frontier.
In a state of autarky, a nation operates without engaging in international trade, meaning its consumption possibilities are strictly limited by its internal production capabilities. Consequently, the equilibrium point for both production and consumption must reside exactly on the production possibility frontier, where domestic resources and technological constraints dictate the maximum attainable levels of output for residents.

253. (C) a difference between its domestic price ratio and the price ratios of other countries.
The fundamental incentive for international trade emerges when domestic price ratios differ between nations. Such variations signal underlying differences in comparative advantage. By specializing in goods with lower relative costs and exchanging them, countries can access markets where those goods command higher values. This mechanism enables participating nations to reach consumption levels beyond their individual production capacity frontiers.

254. (D) the slope of the PPF, indicating the opportunity cost of production.
The marginal rate of transformation represents the slope of the production possibility frontier at any specific point. It serves as a technical measure of the opportunity cost involved in producing an additional unit of one good in terms of the other. This rate reflects how many units of a commodity must be sacrificed to reallocate resources effectively toward another.

255. (C) The Production Possibility Frontier and a community indifference curve.

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would be one hundred dollars. This differs from a specific tariff, which is a fixed monetary amount per physical unit. Ad valorem tariffs are common because they provide a stable level of protection for domestic industries even as the prices of imported goods fluctuate globally.

226. (A) exports or imports; national income
The foreign trade multiplier is an economic concept that measures the impact of a change in international trade on a nation's total national income. It shows how an initial increase in exports or a decrease in imports leads to a more than proportional rise in total income through a chain of spending and consumption. This multiplier effect is an essential tool for understanding how changes in global market conditions and trade policies can propagate through the domestic economy and affect overall growth.

227. (D) The factor that is relatively scarce.
The Stolper-Samuelson theorem describes how international trade affects the real returns to different factors of production within an economy. It predicts that opening up to trade will increase the real return to the factor that is relatively abundant in the country while harming the return to the factor that is relatively scarce. This happens because trade shifts production toward sectors that use the abundant factor intensively, leading to a change in the internal distribution of income between labor and capital.

228. (B) Bilateral Investment Treaty
Economic integration involves various arrangements where countries coordinate their economic and trade policies. Common forms include free trade areas, customs unions, and monetary unions, each representing a different level of integration and cooperation. In contrast, a bilateral investment treaty is a specific agreement between two countries that focuses solely on the protection and promotion of private investments. While it facilitates economic relations, it is not considered a form of broad economic integration like a regional trade bloc or a union.

229. (C) Depreciate.
According to the theory of purchasing power parity, a country's exchange rate should adjust to reflect changes in its price level relative to its trading partners. If a nation experiences significantly higher inflation, its domestic products become more expensive for foreigners and foreign goods become cheaper for its residents. Under a floating exchange rate system, this shift in demand will cause the country's currency to depreciate. This adjustment helps maintain the competitiveness of the nation's goods and services in the global market.

230. (A) Foreign goods must be treated no less favorably than domestically produced goods once they pass customs.
The principle of national treatment is a fundamental rule of the World Trade Organization designed to ensure fair competition. It requires that once imported goods have entered a country's market and cleared customs, they must be treated identically to domestically produced goods. This means they cannot be subject to higher internal taxes or more restrictive regulations. This rule prevents countries from using domestic policies as hidden trade barriers, ensuring that all products compete on a level playing field within the market.

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231. (D) Leads to a payment of foreign currency.
In the balance of payments accounting system, a debit entry is used to record any economic transaction that results in an outflow of foreign currency from a country. Common examples of debit items include the purchase of imported goods, the payment of services provided by foreign residents, and the acquisition of assets in other countries. These transactions represent a use of foreign exchange and are the counterpart to credit entries, which reflect the sources of foreign currency for the nation.

232. (B) The holder of the import license.
Tariffs and quotas are both trade barriers that protect domestic industries by raising the prices of imported goods, but they distribute the resulting economic surplus differently. A tariff is a tax that generates revenue for the government. A quota, however, limits quantity without a tax, creating a price gap known as 'quota rent'. This extra profit typically goes to the individuals or

consumer welfare by better matching individual preferences with available product features and brands.

264. (D) Germany exporting BMW cars to Japan and importing Toyota cars from Japan.
Intra-industry trade is exemplified when countries exchange products belonging to the same industrial classification. A clear instance is when two developed nations, such as Germany and Japan, export and import automobiles to each other simultaneously. This pattern highlights consumer demand for brand variety and the presence of economies of scale, rather than traditional differences in national resource endowments.

265. (A) average costs of production can fall as output increases.
In contrast to classical models assuming constant returns, modern trade theories under imperfect competition assume that average production costs can decrease as output increases. This phenomenon, known as increasing returns to scale, creates a strong incentive for firms to serve larger international markets. It explains why specialization occurs even between countries that possess identical technology and resource levels.

266. (B) Earnings from tourism services provided to foreign visitors.
In the Balance of Payments, a credit entry represents any transaction that results in a receipt of funds from the rest of the world. Earnings from providing tourism services to foreign visitors constitute such a receipt. Because these services are rendered by residents to non-residents, they generate an inflow of foreign currency recorded within the invisible trade section.

267. (B) the export and import of merchandise goods.
The balance of trade, often referred to as visible trade, specifically measures the monetary difference between a nation's exports and imports of physical merchandise goods. It excludes services, income transfers, and financial flows, focusing strictly on tangible commodities. A positive balance indicates a trade surplus, while a negative balance reflects a deficit in the exchange of physical products.

268. (A) Financial Account.
Under modern accounting standards for the Balance of Payments, Foreign Direct Investment is recorded within the Financial Account. This section tracks transactions involving changes in the ownership of financial assets and liabilities between residents and non-residents. FDI specifically involves long-term investments where an entity in one country establishes a lasting interest and significant control in a foreign enterprise.

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269. (C) services, primary income, and secondary income.
Invisible trade in the Balance of Payments comprises all transactions that do not involve physical, tangible goods. This broad category includes the exchange of services such as transport and tourism, primary income like dividends and interest from foreign investments, and secondary income consisting of one-way transfers like remittances. These components reflect the non-merchandise economic interactions between a nation and others.

270. (D) account for statistical discrepancies to ensure the total debits equal total credits.
The errors and omissions entry serves as a balancing item in the Balance of Payments statement. Because the accounts are based on double-entry bookkeeping, total credits should theoretically equal total debits. However, data collection from various sources often results in statistical discrepancies. This item ensures that the overall account balances by accounting for these inaccuracies and unrecorded transactions.

271. (C) the Marshall-Lerner condition is met.
The elasticity approach states that currency devaluation improves the trade balance if the Marshall-Lerner condition is satisfied. This condition requires that the sum of the price elasticities of demand for exports and imports exceeds unity. When trade flows are sufficiently responsive to price changes, the increase in export revenue and decrease in import spending will outweigh the valuation effect.

272. (B) national income and domestic absorption.
The absorption approach defines the trade balance as the difference between a nation's total output, or national income, and its total

240. (B) A basket of major international currencies.
Special Drawing Rights are an international reserve asset created by the IMF to supplement its member countries' official reserves. They are not a physical currency; rather, their value is determined daily based on a weighted average of a basket of major global currencies. Currently, this basket includes the US dollar, Euro, Chinese Yuan, Japanese Yen, and British Pound. This system ensures that the SDR's value is stable and reflects the relative importance of these currencies in the global financial system.

241. (D) So high that it eliminates all imports of the good.
A prohibitive tariff is an extremely high trade duty designed to make an imported good so expensive that no consumer in the country is willing to buy it. This effectively stops all imports of that specific product, providing total protection for domestic producers from foreign competition. While such a tariff may help local industries, it results in higher prices for consumers, a lack of variety, and the loss of all potential gains and efficiencies that result from international trade.

242. (B) Different tastes and preferences across countries.
The Heckscher-Ohlin model of trade is built on several key assumptions to isolate the impact of factor endowments. It assumes that technology is identical across countries and that markets are perfectly competitive. Most importantly, it assumes that tastes and preferences are identical across countries, meaning that consumers everywhere want the same things. Under these conditions, trade occurs solely because countries have different amounts of capital and labor, which leads to differences in the relative costs and prices of goods globally.

243. (C) worsen before improving
The J-curve effect illustrates the time-lagged response of a country's trade balance to currency depreciation. In the immediate aftermath of a depreciation, the trade balance often worsens because the prices of imports rise while the volumes of exports and imports remain fixed due to existing contracts. Over time, as consumers and producers adjust to the new prices, export volumes increase and import volumes decrease. This eventual adjustment leads to the improvement in the trade balance depicted by the upward slope of the J-curve.

244. (D) Uruguay Round
The Uruguay Round of multilateral trade negotiations, which took place from 1986 to 1994, was the most significant and wide-ranging in history. It went far beyond previous rounds by addressing new areas such as services, intellectual property, and agriculture. The most monumental outcome of these negotiations was the Marrakesh Agreement, which officially established the World Trade Organization. This change created a permanent and more powerful international body to oversee the global trading system, replacing the temporary framework of the GATT.

245. (A) Current Account
The balance of payments is a comprehensive record of a country's international transactions, divided into several main accounts. The current account tracks the flow of real resources, including trade in goods and services, as well as income and transfers. The 'balance of trade' is the largest and most visible component of this account, specifically measuring the difference between the total value of exported and imported physical goods. A trade surplus or deficit directly influences the overall balance of a country's current account.

246. (B) The central bank in intervening in the currency market.
The fundamental difference between exchange rate systems lies in how the value of a currency is determined. In a fixed system, the government or central bank sets a specific value and must actively intervene in the market by buying or selling reserves to maintain it. In a flexible or floating system, the exchange rate is determined by the market forces of supply and demand without direct central bank intervention. Each system has different implications for a country's monetary policy and its ability to adjust to economic shocks.

247. (D) Comparative advantage
The principle of comparative advantage is the foundational theory of modern international trade. It demonstrates that all countries can

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rate for this future delivery is locked in at the time of the contract. This mechanism allows participants to eliminate uncertainty regarding future currency values, facilitating planned international business and financial activities.

282. (B) hedger.
An exporter who sells foreign currency today for future delivery is acting as a hedger. This participant uses forward contracts to protect against the risk of adverse exchange rate movements before a payment is received. By locking in a specific rate, the exporter ensures a certain amount of domestic currency, regardless of how the market fluctuates in the interim.

283. (B) To profit from anticipated movements in exchange rates.
The primary motive of a speculator in the foreign exchange market is to generate profits by correctly anticipating future movements in currency values. Unlike hedgers who seek to avoid risk, speculators intentionally accept exchange rate risk in hopes that their market predictions will prove accurate. They buy or sell currencies based on their expectations of appreciation or depreciation over time.

284. (A) two-point arbitrage.
Two-point arbitrage involves the simultaneous purchase and sale of a currency in two different geographical markets to exploit a price discrepancy. By buying where the price is lower and selling where it is higher, the arbitrageur earns a risk-free profit. This activity serves to equalize exchange rates across global financial centers, ensuring consistency in the pricing of national currencies.

285. (C) cross-exchange rates among three currencies.
Triangular arbitrage is a strategy that exploits inconsistencies in the cross-exchange rates between three different currencies. This risk-free activity involves converting an initial currency into a second, then the second into a third, and finally the third back into the first. If the direct exchange rate differs from the rate derived through the intermediate steps, a profit can be made.

286. (D) consumption gain from trade.
A consumption gain from trade occurs when a country is able to consume a combination of goods that lies beyond its own production possibility frontier. Through international exchange, a nation can acquire more of all commodities than it could produce in isolation. This represents a fundamental benefit of trade, allowing citizens to enjoy a higher standard of living and variety.

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287. (C) it can purchase more imports for the same amount of exports.
An improvement in a country's terms of trade signifies that the prices of its exports have risen relative to the prices of its imports. This shift allows the nation to purchase a larger volume of foreign goods for any given quantity of its own exports. It represents a favorable change in the international purchasing power of the country's domestic production.

288. (B) national income.
The foreign trade multiplier explains how initial changes in exports or imports produce a magnified effect on a country's total national income. An increase in exports stimulates production and employment, leading to further rounds of spending and income generation within the economy. The total resulting increase in national income is typically a multiple of the original increase in export demand.

289. (D) the reallocation of a country's existing productive resources.
Static gains from trade arise primarily from the more efficient reallocation of a nation's existing productive resources. By specializing in the production of goods where it possesses a comparative advantage and trading for others, a country can achieve higher output and consumption levels. These gains are realized without requiring any changes in technology, resource quantities, or the rate of investment.

290. (A) generates income for domestic producers from a foreign source.
An increase in exports is considered an injection into the circular flow of income because it brings money into the domestic economy from foreign sources. This demand from abroad generates revenue for local producers, which is then distributed as wages and profits to residents. This

domestic spending on goods and services, known as absorption. If national income exceeds the amount absorbed by residents through consumption, investment, and government spending, the country runs a surplus. Conversely, when absorption exceeds income, a trade deficit occurs.

273. (D) The monetary approach.
The monetary approach interprets the balance of payments primarily as a monetary phenomenon. It argues that a persistent deficit results from an excess supply of money in the domestic economy relative to the demand for it. In this framework, the imbalance is corrected through an automatic process where the surplus money flows out of the country to restore equilibrium.

274. (A) reduce domestic spending relative to national income.
To correct a balance of payments deficit using the absorption approach, a country must implement policies that reduce domestic spending relative to national income. This can be achieved by decreasing consumption, investment, or government expenditure. Alternatively, the nation must increase its total production. The goal is to ensure that the economy does not consume more than it actually produces.

275. (C) relative prices.
The Marshall-Lerner condition focuses on how trade flows respond to changes in relative prices caused by exchange rate movements. It evaluates whether the price elasticities of demand for exports and imports are high enough to ensure that a devaluation leads to a trade balance improvement. This analysis is central to understanding the effectiveness of price-based mechanisms in correcting international imbalances.

276. (A) The relative price of goods and services between two countries.
The real exchange rate provides a measure of the relative price of goods and services between two countries by adjusting the nominal rate for differences in price levels. While the nominal rate only shows currency conversion values, the real rate reflects actual purchasing power and international competitiveness. It indicates how many foreign product baskets can be exchanged for one domestic basket.

277. (D) difference in their inflation rates.
The relative version of the Purchasing Power Parity theory posits that the percentage change in the exchange rate between two currencies is determined by the difference in inflation rates between those countries. It suggests that the currency of the nation with higher inflation will depreciate against the currency of the nation with lower inflation to maintain constant relative purchasing power.

278. (B) €1 = $1.50
According to the absolute version of Purchasing Power Parity, the equilibrium exchange rate should equal the ratio of price levels between two countries. By dividing the price of the American basket by the price of the Eurozone basket, the rate is determined. This calculation shows that one Euro should be equivalent to one and a half United States dollars.

279. (C) market forces of supply and demand.
In a floating exchange rate regime, the value of a national currency is determined by the continuous interaction of supply and demand within the foreign exchange market. Unlike fixed systems where central banks peg values, market forces adjust the rate based on economic factors like trade flows and investment trends. Prices fluctuate freely without direct, constant intervention from monetary authorities.

280. (D) an appreciation of the real exchange rate and a loss of competitiveness.
If a country's domestic price level rises while the nominal exchange rate and foreign prices stay constant, its goods become relatively more expensive to foreign buyers. This situation represents an appreciation of the real exchange rate. Consequently, the nation experiences a loss of international competitiveness, as its exports become less attractive and imports become cheaper for its own residents.

281. (A) forward transaction.
A forward transaction in the foreign exchange market involves an agreement to exchange specific amounts of different currencies at a pre-determined date in the future. The exchange

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This reallocation can reduce global economic welfare by distorting trade patterns away from true comparative advantage.

300. (A) treating imported goods and domestically produced goods equally after the import has entered the market.

The National Treatment principle requires member nations to treat imported goods no less favorably than locally produced goods once they have entered the domestic market. This rule prevents internal taxes or regulations from being used as hidden barriers to trade. It ensures that foreign products compete on a level playing field with domestic items regarding sales, distribution, and overall commercial use.

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CHAPTER 06
Public Economics

1. Which of the following best defines a 'public good'?
(A) A good that is produced by the public sector.
(B) A good that is non-rivalrous and non-excludable in consumption.
(C) A good that is available to the public at a subsidized rate.
(D) A good that has positive externalities but is excludable.

2. 'Moral hazard' is a problem that arises due to:
(A) One party's actions being unobservable after a transaction.
(B) The existence of symmetric information between both parties.
(C) A situation involving a lack of information before a transaction.
(D) The formal presence of a legally binding contract between parties.

3. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : The free-rider problem is a characteristic issue associated with public goods.
Reason (R) : Due to the non-excludable nature of public goods, it is difficult to prevent individuals from consuming the good even if they do not pay for it.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

4. Given below are two statements. Based on these statements, choose the correct option.
Statement I : Market failure occurs when the allocation of goods and services by a free market is not efficient.
Statement II : The existence of monopolies is a primary cause of government failure, not market failure.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

5. A negative externality is generated when:
(A) The social benefit of an activity is greater than the private benefit.
(B) The private cost and social cost of an activity are equal.
(C) The social cost of an activity is greater than the private cost.
(D) The production of a good is funded by the government.

6. Match List I with List II by selecting the correct option.
List I: (Concept)
P. Asymmetric Information
Q. Public Good
R. Negative Externality
S. Positive Externality
List II: (Example)
1. Pollution from a factory
2. National defence
3. Used car market
4. Vaccination
(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-1, R-2, S-4
(D) P-1, Q-2, R-3, S-4

7. Which of the following is an example of a remedial measure for a negative externality like pollution?
(A) Providing a government subsidy to the polluting firm.

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(B) Granting a monopoly status to the polluting firm.
(C) Reducing consumer welfare through price controls.
(D) Imposing a Pigouvian tax on the polluting activity.

8. Which of the following statements regarding the regulation of markets is incorrect?
(A) Regulation always leads to an increase in consumer welfare.
(B) Regulation can be used to correct for market failures.
(C) Regulation aims to control prices, quantities, and quality of goods.
(D) Collusive behaviour among firms often necessitates market regulation.

9. Consider the following statements regarding market regulation:
(a) Regulation can help in internalizing externalities.
(b) The primary goal of regulating collusion is to protect producer surplus.
(c) Consumer welfare is often measured by consumer surplus.
(d) Regulation of natural monopolies aims to prevent them from charging excessively high prices.
Which of the above statement(s) is/are correct?
(A) a, b, and c
(B) a, c, and d
(C) b, c, and d
(D) a, b, and d

10. The 'adverse selection' problem in the insurance market is a direct result of:
(A) Asymmetric information between the insurer and the insured.
(B) The occurrence of a negative externality in production.
(C) The inherent non-rivalrous nature of private insurance.
(D) The regulation of the insurance market by the government.

11. Which of the following is the most appropriate example of a non-tax revenue for the government?
(A) Income tax collected from individuals.
(B) Goods and Services Tax (GST) on products.
(C) Customs duty on imported goods.
(D) Profits from a Public Sector Undertaking (PSU).

12. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : Progressive taxation is based on the ability-to-pay principle.
Reason (R) : In a progressive tax system, the average tax rate increases as the taxable amount increases.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

13. The formal, legal responsibility to pay a tax is known as its:
(A) Tax incidence.
(B) Tax effect.
(C) Tax impact.
(D) Tax base.

14. What does the term 'collusion' refer to in the context of market regulation?
(A) A government policy to support small businesses.
(B) The process of consumers collectively bargaining for lower prices.
(C) A merger between two firms in unrelated industries.
(D) An agreement among firms to limit competition.

15. Consider the following statements about public goods:
(a) They are provided efficiently by the private market.
(b) The marginal cost of providing a public good to an additional person is zero.
(c) The lighthouse is a classic example of a public good.
(d) Free-riding is not a problem for public goods.
(e) They are characterized by rivalry and excludability.
Which of the above statement(s) is/are correct?

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(A) a and e
(B) b and c
(C) c and d
(D) a and d

16. Given below are two statements. Based on these statements, choose the correct option.
Statement I : The incidence of an indirect tax falls entirely on the consumer regardless of the elasticity of demand.
Statement II : The incidence of a tax refers to the final resting place of the tax burden.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

17. A tax system where the average tax rate decreases as income increases is known as:
(A) Progressive taxation.
(B) Regressive taxation.
(C) Proportional taxation.
(D) Digressive taxation.

18. Consider the following steps in the management of public debt:
1. Debt Conversion: Changing old loans into new loans.
2. Sinking Fund Creation: Setting aside revenue annually to accumulate a fund for repayment.
3. Debt Repayment: Using the accumulated fund to pay off the principal amount.
4. Debt Repudiation: Refusal to pay the debt (extreme and rare measure).

Which of the following represents the most logical sequence for standard debt management practices?
(A) 4, 1, 2, 3
(B) 2, 3, 1, 4
(C) 2, 1, 3, 4
(D) 1, 2, 3, 4

19. Which of the following is a direct tax?
(A) Goods and Services Tax (GST)
(B) Customs Duty
(C) Corporation Tax
(D) Value Added Tax (VAT)

20. Which of the following pairs is incorrectly matched?
(A) Public Good - Non-rivalry in consumption
(B) Negative Externality - Social cost > Private cost
(C) Collusion - Anti-competitive agreement
(D) Adverse Selection - Post-contractual information asymmetry

21. The Coase theorem suggests that if property rights are well-defined and transaction costs are low, the problem of externalities can be solved:
(A) Through government regulation and Pigouvian taxes.
(B) By creating a public good to offset the externality.
(C) Through private bargaining between the affected parties.
(D) By imposing a price ceiling on the offending activity.

22. Public expenditure is the spending incurred by:
(A) Private corporations for public welfare.
(B) Central, state, and local governments.
(C) Households on consumer goods and services.
(D) Foreign entities on domestic projects.

23. Match List I with List II by selecting the correct option.
List I: (Type of Tax)
P. Progressive Tax
Q. Regressive Tax
R. Proportional Tax
S. Indirect Tax
List II: (Characteristic)
1. Tax rate is constant regardless of income.
2. Burden is higher on low-income groups.
3. Tax rate increases with the tax base.
4. The tax is levied on goods and services.
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-3, R-4, S-1

24. A key implication of fiscal policy is its effect on:
(A) Aggregate demand in the economy.
(B) The money supply, managed by the central bank.

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(C) The international exchange rate determined by market forces.
(D) The private investment decisions of individual firms only.

25. The budget multiplier concept explains how:
(A) A change in the money supply affects the price level.
(B) A change in the public debt leads to a multiplier effect on interest rates.
(C) A change in government spending and taxes affects national income.
(D) The budget deficit is multiplied over time through borrowing.

26. Which of the following is NOT a remedial measure for market failure?
(A) Allowing firms to collude to set market prices.
(B) Provision of public goods by the government.
(C) Imposition of taxes on activities with negative externalities.
(D) Regulation of monopolies to prevent exploitation.

27. A situation where a perfectly informed party's choices depend on the unobservable behaviour of a less-informed party is an example of:
(A) A public good problem.
(B) A negative externality.
(C) The free-rider problem.
(D) The principal-agent problem.

28. Which of the following is not a form of non-progressive taxation?
(A) Proportional tax
(B) Progressive tax
(C) Regressive tax
(D) Lump-sum tax

29. Consider the following statements about public debt:
(a) Internal debt is owed to the country's own citizens and institutions.
(b) External debt does not carry any exchange rate risk.
(c) Public debt is always a burden on the economy.
(d) Debt management involves decisions about the issuance, servicing, and retirement of debt.
(e) Repudiation of debt is a common and recommended method of debt management.
Which of the above statement(s) is/are correct?
(A) a and d
(B) a, b, and c
(C) c, d, and e
(D) b and e

30. The final burden of a tax after all shifting has occurred is referred to as:
(A) Tax avoidance.
(B) Tax evasion.
(C) Tax impact.
(D) Tax incidence.

31. An increase in government spending, a key tool of fiscal policy, is likely to have what immediate implication?
(A) An increase in aggregate demand.
(B) A decrease in aggregate demand.
(C) A decrease in the public debt.
(D) An immediate balancing of the public budget.

32. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : Regulation of a market with collusive firms is necessary to protect consumer welfare.
Reason (R) : Collusion leads to higher prices and lower output, reducing consumer surplus and creating a deadweight loss.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

33. Which of the following is the best description of the 'effects of taxation'?
(A) The process of levying and collecting taxes.
(B) The consequences of taxes on economic variables like work, saving, and investment.
(C) The legal framework governing taxation.
(D) The distribution of tax revenue among different levels of government.

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34. A public budget is a statement of the government's:
(A) Estimated revenues and proposed expenditures for a future period.
(B) Past revenues and expenditures.
(C) Total accumulated public debt.
(D) Monetary policy intentions for the coming year.

35. The 'free-rider problem' makes it difficult for private markets to provide:
(A) Goods with negative externalities.
(B) Goods subject to collusion.
(C) Public goods.
(D) Inferior goods.

36. Given below are two statements. Based on these statements, choose the correct option.
Statement I : A direct tax is a tax whose impact and incidence are on the same person.
Statement II : An indirect tax is a tax whose impact and incidence are on different persons.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

37. A government policy of increasing taxes and decreasing its expenditure is known as:
(A) Expansionary fiscal policy.
(B) Easy money policy.
(C) Contractionary fiscal policy.
(D) Market regulation policy.

38. Which of the following statements about public expenditure is incorrect?
(A) It can be used as a tool to reduce income inequality.
(B) It has no effect on the overall level of employment.
(C) It can influence the allocation of resources in an economy.
(D) It is a major component of government fiscal policy.

39. Consider the following statements regarding externalities:
(a) An externality is a cost or benefit that affects a party who did not choose to incur that cost or benefit.
(b) Pollution is an example of a positive externality.
(c) Education is often cited as having positive externalities.
(d) The market output for a good with negative externalities is typically higher than the socially optimal level.
Which of the above statement(s) is/are correct?
(A) a, b, and c
(B) b, c, and d
(C) a, c, and d
(D) a, b, and d

40. The difference between total expenditure and total receipts excluding borrowings is known as:
(A) Fiscal Deficit.
(B) Revenue Deficit.
(C) Primary Deficit.
(D) Budgetary Deficit.

41. In the context of consumer welfare, collusion among firms typically leads to:
(A) An increase in consumer surplus and a decrease in producer surplus.
(B) An increase in both consumer and producer surplus.
(C) A decrease in consumer surplus and an increase in producer surplus.
(D) A decrease in both consumer and producer surplus.

42. The process of managing the maturity, composition, and cost of government liabilities is called:
(A) Public debt management.
(B) Fiscal policy management.
(C) Budgetary management.
(D) Revenue management.

43. Consider the following concepts related to public finance analysis:
1. Identification of market failure.
2. Implementation of a corrective tax (fiscal policy).
3. Observation of a negative externality.
4. Analysis of tax incidence and effects.
Which of the following represents the correct chronological sequence of these steps?

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(A) 3, 1, 2, 4
(B) 1, 3, 2, 4
(C) 2, 4, 1, 3
(D) 4, 2, 3, 1

44. Which of the following is a characteristic of a non-progressive tax system?
(A) The marginal tax rate is always increasing.
(B) The tax may be proportional or regressive.
(C) The tax burden falls more heavily on higher-income individuals.
(D) It is based solely on the benefit principle of taxation.

45. The value of the balanced budget multiplier is typically equal to:
(A) Zero.
(B) The marginal propensity to consume.
(C) One.
(D) The inverse of the marginal propensity to save.

46. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : Asymmetric information can lead to market failure.
Reason (R) : When one party in a transaction has more or better information than the other, it can lead to inefficient outcomes like adverse selection and moral hazard.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

47. A public good is 'non-rivalrous', which means:
(A) One person's consumption of the good does not reduce its availability to others.
(B) It is impossible to exclude anyone from consuming it.
(C) The good is provided by a non-competitive market.
(D) The good is not desired by consumers.

48. Match List I with List II by selecting the correct option.
List I: (Fiscal Term)
P. Fiscal Deficit
Q. Revenue Deficit
R. Primary Deficit
S. Budget Deficit
List II: (Formula/Definition)
1. Revenue Expenditure - Revenue Receipts
2. Fiscal Deficit - Interest Payments
3. Total Expenditure - Total Receipts (excluding borrowings)
4. Total Expenditure - Total Receipts (including borrowings)
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-1, R-2, S-3
(C) P-3, Q-1, R-2, S-4
(D) P-3, Q-2, R-1, S-4

49. An example of a government applying fiscal policy to combat a recession would be:
(A) Increasing the central bank's policy rate.
(B) Increasing government expenditure on infrastructure projects.
(C) Selling government securities in the open market.
(D) Reducing the money supply.

50. The 'incidence of taxation' is a concept that deals with:
(A) The final economic burden of a tax.
(B) The legal liability of who pays a tax.
(C) The administrative cost of collecting a tax.
(D) The revenue generated from a tax.

51. Consider the following policies for managing public debt:
(a) Repudiation of debt
(b) Creation of a sinking fund
(c) Conversion of debt
(d) Imposing a capital levy
(e) Issuing more currency
Which of the above are valid methods of debt management?
(A) a, b, and e
(B) c, d, and e
(C) a, b, c, and d
(D) b, c, d, and e

52. The problem of 'adverse selection' arises in markets with asymmetric information:
(A) After the contract is signed.
(B) During the enforcement of the contract.
(C) Only in markets for public goods.

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73. Public debt that is owed by the government to foreign governments, institutions, or individuals is known as:
(A) Internal debt.
(B) Redeemable debt.
(C) External debt.
(D) Unfunded debt.

74. Given below are two statements. Based on these statements, choose the correct option.
Statement I : A key implication of a contractionary fiscal policy is the potential for slowing down economic growth in the short term.
Statement II : A contractionary fiscal policy aims to increase aggregate demand.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

75. Consider the following taxation concepts:
1. Direct Tax
2. Progressive Taxation
3. Public Revenue
4. Tax Revenue

Which of the following represents the correct hierarchical order from general to specific?
(A) 3, 4, 1, 2
(B) 4, 3, 2, 1
(C) 3, 1, 4, 2
(D) 1, 2, 3, 4

76. The reduction in a consumer's welfare resulting from a tax or from collusion is graphically represented by:
(A) An increase in the producer surplus area.
(B) A decrease in the consumer surplus area.
(C) A shift in the production possibility frontier.
(D) An increase in the marginal rate of substitution.

77. Which statement best describes the primary goal of public expenditure?
(A) To maximize the profits of public sector enterprises.
(B) To exclusively fund the military and internal security.
(C) To provide services that the private market fails to provide efficiently or equitably.
(D) To create a budget surplus each financial year.

78. A tax on a good with perfectly inelastic demand will have its incidence:
(A) Entirely on the producer.
(B) Shared equally between the producer and consumer.
(C) Dependent on the elasticity of supply.
(D) Entirely on the consumer.

79. Consider the following statements about public debt management:
(a) A sinking fund is a method of accumulating funds for debt repayment.
(b) Debt conversion involves replacing old, high-interest debt with new, low-interest debt.
(c) Repudiation, or refusal to pay, is a standard and low-risk management strategy.
(d) The primary goal is to meet the government's financing needs at the lowest possible cost over the medium to long run.
(e) Managing public debt has no connection with the country's monetary policy.

Which of the above statement(s) is/are correct?
(A) a, b, and d
(B) a, c, and e
(C) b, c, and d
(D) c, d, and e

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80. A government budget showing that revenue expenditure is greater than revenue receipts indicates a:
(A) Fiscal surplus.
(B) Revenue deficit.
(C) Primary deficit.
(D) Capital surplus.

81. Which of the following is an example of an 'effect of taxation' on investment?
(A) The government uses tax revenue to build a new highway.
(B) A high corporate tax rate may discourage firms from undertaking new projects.
(C) A person legally minimizes their tax liability.
(D) An individual fails to declare their income to tax authorities.

(A) The ability to shift the burden of the tax.
(B) The rate at which they are levied.
(C) The entity that collects the tax.
(D) The revenue generated by the tax.

64. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : Public expenditure is a crucial component of fiscal policy.
Reason (R) : The government can influence the level of economic activity by adjusting its own spending levels.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

65. The management of public debt involves:
(A) Only the process of borrowing from the public.
(B) The total process of borrowing, servicing, and repaying government debt.
(C) Only the repayment of outstanding government loans.
(D) The process of transferring public debt to private corporations.

66. A public good is 'non-excludable', which means:
(A) It is physically impossible or very costly to prevent non-payers from consuming it.
(B) Its quality does not diminish with more users.
(C) The government is the sole provider of the good.
(D) It is not a rival good.

67. Which of the following is an incorrect pair?
(A) Progressive Tax - Higher tax rate for higher income
(B) External Debt - Loan from the World Bank
(C) Fiscal Policy - Managed by the Central Bank
(D) Non-Tax Revenue - Fees for government services

68. Market failure due to asymmetric information is exemplified by the 'market for lemons' model, which explains how low quality can drive high quality out of the market. This is a problem of:
(A) Moral hazard.
(B) Negative externality.
(C) Public goods.
(D) Adverse selection.

69. An expansionary fiscal policy would be most appropriate in a situation of:
(A) High inflation and low unemployment.
(B) Low inflation and high unemployment (stagflation).
(C) Low inflation and high unemployment.
(D) A balanced budget and full employment.

70. Match List I with List II by selecting the correct option.
List I: (Policy Tool)
P. Pigouvian Tax
Q. Antitrust Law
R. Public Provision
S. Subsidy
List II: (Market Problem Addressed)
1. Public Goods (e.g., Defence)
2. Positive Externality (e.g., Education)
3. Negative Externality (e.g., Pollution)
4. Collusion/Monopoly
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

71. The 'announcement effect' is one of the effects of:
(A) Public debt.
(B) Public expenditure.
(C) Market regulation.
(D) Taxation.

72. The balanced budget multiplier is equal to one because:
(A) Spending injections exceed initial consumption leakages caused by equal taxes.
(B) The tax multiplier is significantly larger than the spending multiplier.
(C) An increase in government spending is perfectly offset by consumption.
(D) The sum of the spending and tax multipliers is mathematically one.

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(D) Before the contract is signed.

53. Which of the following is not a component of the public budget?
(A) Public Revenue estimates.
(B) Public Expenditure proposals.
(C) The monetary policy statement of the central bank.
(D) A plan for financing the deficit.

54. The main purpose of regulating markets where collusion is prevalent is to:
(A) Guarantee high profits for the participating firms.
(B) Restore competition and protect consumer interests.
(C) Encourage the formation of more cartels.
(D) Increase the tax revenue from colluding firms.

55. Which of the following is the most significant implication of a large and persistent fiscal deficit?
(A) A decrease in the price level.
(B) A surplus in the balance of payments.
(C) A reduction in the need for government borrowing.
(D) An accumulation of public debt.

56. A tax levied at a flat rate on all income levels is an example of:
(A) Proportional taxation.
(B) Progressive taxation.
(C) Regressive taxation.
(D) Digressive taxation.

57. Given below are two statements. Based on these statements, choose the correct option.
Statement I : Public expenditure on education can be considered an investment in human capital.
Statement II : All public expenditure is unproductive and a drain on national resources.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

58. The 'budget multiplier' is larger when:
(A) The marginal propensity to consume (MPC) is larger.
(B) The marginal propensity to save (MPS) is larger.
(C) The budget is balanced.
(D) Taxes are increased.

59. The effect of a tax on a person's willingness to work is part of the study of:
(A) The incidence of taxation.
(B) The administration of taxation.
(C) The classification of taxation.
(D) The effects of taxation.

60. Which of the following statements about consumer welfare is correct?
(A) It is maximized under a pure monopoly.
(B) It is generally higher in competitive markets than in monopolistic markets.
(C) It is unaffected by collusion among firms.
(D) It is measured by the level of producer surplus.

61. Consider the following statements regarding remedial measures for market failure:
(a) Pigouvian taxes are a remedy for positive externalities.
(b) Subsidies can be used to correct for positive externalities.
(c) Direct provision of goods by the government can solve the public good problem.
(d) Antitrust laws are used to address the market failure caused by monopolies and collusion.
Which of the above statement(s) is/are correct?
(A) a, b, and c
(B) a, c, and d
(C) b, c, and d
(D) a, b, and d

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62. 'Non-tax revenue' includes all of the following ExCEPT:
(A) Fines and penalties.
(B) Interest receipts on loans given by the government.
(C) Profits of public enterprises.
(D) Corporation tax.

63. The primary difference between a direct tax and an indirect tax lies in:

82. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : The provision of national defence is a responsibility of the government.
Reason (R) : National defence is a classic example of a public good, being non-rivalrous and non-excludable, and would be underprovided by the private market due to the free-rider problem.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

83. When firms in an oligopoly secretly agree to fix prices or limit output, they are engaging in:
(A) Price discrimination.
(B) Non-price competition.
(C) Tacit collusion.
(D) Product differentiation.

84. The formula for the government expenditure multiplier is:
(A) $-MP\frac{C}{1-MPC}$
(B) $\frac{1}{M}PC$
(C) $\frac{1}{1+MPC}$
(D) $\frac{1}{1-MPC}$

85. Which of the following is not a direct tax?
(A) Personal Income Tax
(B) Wealth Tax
(C) Customs Duty
(D) Corporate Income Tax

86. What is the primary cause of market failure in the case of public goods?
(A) The presence of externalities.
(B) The characteristics of non-rivalry and non-excludability.
(C) Asymmetric information between producers and consumers.
(D) The tendency of firms to collude.

87. Which of the following statements about the burden of public debt is incorrect?
(A) The burden of internal debt involves a transfer of resources within the country.
(B) The burden of external debt involves a transfer of resources outside the country.
(C) The burden includes both direct money burden and indirect real burden.
(D) There is no burden associated with public debt.

88. A key implication of fiscal policy is its potential to 'crowd out' private investment. This occurs when:
(A) Increased government borrowing drives up interest rates, making private investment more expensive.
(B) Government spending directly competes with private firms.
(C) Tax cuts lead to a decrease in consumer spending.
(D) Government regulation increases the cost of private investment.

89. Consider the following items:
(a) Fees for issuing passports
(b) Income tax on salaries
(c) Fines for traffic violations
(d) Profits from national railways
Which of the above are examples of non-tax revenue?
(A) a, b, and c
(B) b, c, and d
(C) a, c, and d
(D) a, b, and d

90. 'Consumer welfare' in economics is most precisely defined as:
(A) The level of satisfaction consumers get from the consumption of goods and services.
(B) The total revenue earned by firms.
(C) The amount of government subsidy provided to consumers.
(D) The number of products available in the market.

91. The budget multiplier effect is diminished by:
(A) A higher marginal propensity to consume.
(B) An increase in government spending.
(C) A decrease in private investment.
(D) The presence of saving and taxes.

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173. The value of the balanced budget multiplier is one, suggesting that an equal increase in government spending and taxes will:
(A) Leave national income unchanged.
(B) Decrease national income.
(C) Increase national income by the same amount as the increase in spending.
(D) Increase national income by more than the increase in spending.

174. A progressive tax system is designed to:
(A) Place a larger burden on low-income households.
(B) Tax all income at the same rate.
(C) Discourage work and investment across all income levels.
(D) Achieve greater equity in income distribution by taxing higher incomes at higher rates.

175. Consider the following items:
(a) A slice of pizza
(b) National defense
(c) Street lighting
(d) A privately owned car
(e) A non-encrypted radio broadcast
Which of the above are examples of Public Goods?
(A) a, d
(B) b, c, e
(C) a, c, d
(D) b, d, e

176. Collusion is most likely to occur in a market that is:
(A) A monopoly.
(B) An oligopoly.
(C) Perfectly competitive.
(D) Monopolistically competitive.

177. A government's fiscal policy is said to be expansionary when it:
(A) Reduces its spending and increases taxes.
(B) Increases its spending or reduces taxes.
(C) Sells government securities on the open market.
(D) Increases the bank rate.

178. What does the term 'remedial measures' refer to in the context of market failure?
(A) Interventions designed to correct the inefficiencies of market failure.
(B) The causes of market failure.
(C) The natural tendency of markets to correct themselves.
(D) The measurement of the extent of market failure.

179. Public expenditure can be broadly classified into:
(A) Direct and indirect expenditure.
(B) Progressive and regressive expenditure.
(C) Revenue and capital expenditure.
(D) Tax and non-tax expenditure.

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180. The primary purpose of a public budget is to:
(A) List the names of all taxpayers in the country.
(B) Set the interest rates for the economy.
(C) Record the historical economic performance of the country.
(D) Detail the financial plan and policy of the government for the upcoming fiscal year.

181. Which of the following statements about the 'incidence of taxation' is incorrect?
(A) It refers to who ultimately bears the burden of a tax.
(B) The legal incidence is always the same as the economic incidence.
(C) It depends on the relative elasticities of demand and supply.
(D) It can be shifted from producers to consumers or vice versa.

182. Public debt becomes a burden when:
(A) It is used to finance productive investments.
(B) The interest payments on the debt become excessively large.
(C) It is entirely internal debt.
(D) The government repays the debt on time.

183. Match List I with List II by selecting the correct option.
List I: (Concept)
P. Non-rivalry
Q. Non-excludability
R. Moral Hazard
S. Adverse Selection
List II: (Description)
1. High-risk individuals are more likely to buy insurance.

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(B) It is always financed through taxation.
(C) It can be a tool for income redistribution.
(D) It has no impact on aggregate demand.

102. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : A revenue deficit in the public budget is a cause for concern.
Reason (R) : It implies that the government's routine expenses exceed its routine income, and it has to borrow to finance its consumption expenditure.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

103. 'Market for lemons' is a term used to describe a market failure caused by:
(A) Public goods.
(B) Externalities.
(C) Collusion.
(D) Asymmetric information.

104. Consider the following characteristics:
(a) Non-excludability
(b) Rivalry in consumption
(c) Excludability
(d) Non-rivalry in consumption
(e) Typically provided by the private sector
Which of the above are characteristics of a 'public good'?
(A) a and b
(B) c and e
(C) a and d
(D) b and c

105. When the government's total expenditure is equal to its total revenue, the budget is said to be:
(A) A surplus budget.
(B) A deficit budget.
(C) A balanced budget.
(D) A zero-based budget.

106. A tax that takes the same percentage of income from all taxpayers is called:
(A) A proportional tax.
(B) A progressive tax.
(C) A regressive tax.
(D) A lump-sum tax.

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107. Which of the following is not a primary implication of fiscal policy?
(A) Affecting aggregate demand.
(B) Influencing the distribution of income.
(C) Impacting the level of savings and investment in the economy.
(D) Altering the money supply.

108. The main difference between tax and non-tax revenue is that:
(A) Tax revenue is collected only by the central government.
(B) Tax revenue is compulsory payment while non-tax revenue is not.
(C) Non-tax revenue is always larger than tax revenue.
(D) Non-tax revenue does not involve a quid pro quo.

109. 'Internal debt' refers to the part of public debt that is borrowed from:
(A) The World Bank and IMF.
(B) Foreign governments.
(C) The country's own citizens, banks, and financial institutions.
(D) Foreign multinational corporations.

110. Which of the following is an example of collusion?
(A) A firm lowers its price to gain market share.
(B) Two firms independently invest in a new technology.
(C) A new company enters a competitive market.
(D) Several airlines secretly agree not to lower ticket prices on a particular route.

111. Given below are two statements. Based on these statements, choose the correct option.
Statement I : The Coase Theorem suggests that private solutions to externalities are possible.
Statement II : The Coase Theorem is effective even when transaction costs are very high.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are

(A) Perfect competition.
(B) Consumer surplus.
(C) A cartel.
(D) A natural monopoly.

154. A tax that is considered 'non-progressive' could be:
(A) Either a regressive or a proportional tax.
(B) Only a progressive tax.
(C) Only a regressive tax.
(D) Only a proportional tax.

155. Consider the following statements regarding the budget multiplier:
(a) It measures the change in national income for a given change in government spending.
(b) Its value is given by 1 / MPS (where MPS is marginal propensity to save).
(c) The balanced budget multiplier is always equal to zero.
(d) Its value is larger when the marginal propensity to consume is smaller.
(e) It is a key concept in Keynesian fiscal policy analysis.
Which of the above statement(s) is/are correct?
(A) a, c, and d
(B) c, d, and e
(C) a, b, and e
(D) b, c, and d

156. The main objective of fiscal policy is to:
(A) Regulate the banking system.
(B) Achieve economic stability and growth through the government's budget.
(C) Control the money supply and credit.
(D) Manage the country's foreign exchange reserves.

157. 'Adverse selection' in the context of insurance refers to the tendency of:
(A) Insured individuals to take on more risk after being insured.
(B) Insurance companies to offer policies only to low-risk individuals.
(C) People with higher risks to be more likely to seek insurance.
(D) The government to regulate the insurance industry.

158. Public expenditure is an important instrument for:
(A) Increasing income inequality.
(B) Reducing the overall size of the economy.
(C) Exclusively funding the private sector.
(D) Achieving social objectives such as poverty reduction and better health.

159. The burden of a tax on a commodity is shared between the buyer and the seller. The share of the burden on the buyer is larger if:
(A) Demand is less elastic than supply.
(B) Demand is more elastic than supply.
(C) Demand and supply have equal elasticity.
(D) The commodity is a luxury good.

160. A public budget can be of which of the following types?
(A) Only surplus or deficit.
(B) Balanced, surplus, or deficit.
(C) Only balanced.
(D) Only revenue or capital.

161. An important effect of taxation is its potential to create a 'deadweight loss'. This loss represents:
(A) The tax revenue collected by the government.
(B) The reduction in total surplus (consumer and producer surplus) that is not offset by tax revenue.
(C) The administrative cost of collecting the tax.
(D) The tax burden shifted to consumers.

162. Which of the following pairs is correctly matched?
(A) Fiscal Policy - Use of government spending and taxes
(B) Public Good - Rivalrous consumption
(C) Collusion - Increased consumer welfare
(D) Public Debt - Always owed to foreign countries

163. The primary difference between 'asymmetric information' and 'perfect information' is the:
(A) Total amount of information available.
(B) Distribution of information among parties to a transaction.
(C) Source of the information.
(D) Cost of acquiring information.

164. The regulation of markets to curb collusion is based on the idea that:
(A) Competition leads to inefficient outcomes.
(B) Firms should be allowed to maximize profits

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(C) b, c, and d
(D) c, d, and e

122. The regulation of a natural monopoly, such as an electricity provider, is primarily aimed at:
(A) Preventing the abuse of market power and protecting consumers.
(B) Forcing the company out of business.
(C) Encouraging more firms to enter the market.
(D) Maximizing the company's profits.

123. The 'incidence' of a tax refers to:
(A) A legal case involving tax payment.
(B) The rate at which the tax is levied.
(C) The revenue collected from the tax.
(D) The final resting place of the tax burden.

124. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : A positive externality, such as research and development, often leads to underproduction by the private market.
Reason (R) : The producer of the good with a positive externality cannot capture the full social benefits of their activity in the form of revenue.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

125. The Primary Deficit in a public budget is calculated as:
(A) Revenue Deficit minus Fiscal Deficit.
(B) Total Expenditure minus Total Receipts.
(C) Fiscal Deficit minus Interest Payments.
(D) Fiscal Deficit plus Interest Payments.

126. Which of the following is not a component of public expenditure?
(A) Defence spending.
(B) Subsidies.
(C) Construction of highways.
(D) Private investment expenditure.

127. If the government wants to reduce inflation, the appropriate fiscal policy would be to:
(A) Increase taxes and decrease government spending.
(B) Decrease taxes and increase government spending.
(C) Keep taxes and government spending unchanged.
(D) Decrease taxes and decrease government spending.

128. A key difference between 'tax revenue' and 'non-tax revenue' is the element of:
(A) Voluntariness.
(B) Compulsion.
(C) Regularity.
(D) Source.

129. The existence of public goods provides a rationale for:
(A) Private market activity.
(B) Government intervention.
(C) The elimination of all taxes.
(D) The promotion of monopolies.

130. Consider the following conceptual developments in the theory of public expenditure:
1. Law of Increasing State Activity.
2. The Displacement Effect hypothesis.
3. Theory of public goods.
4. Work on welfare economics and externalities.

Which of the following represents the correct historical sequence of these developments?
(A) 1, 4, 3, 2
(B) 4, 1, 2, 3
(C) 1, 2, 3, 4
(D) 4, 1, 3, 2

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131. The concept of 'moral hazard' is a type of market failure arising from:
(A) Negative externalities.
(B) Pre-contractual asymmetric information.
(C) Post-contractual asymmetric information.
(D) The non-excludability of public goods.

132. When a government finances its deficit by printing more money, it can lead to:
(A) Deflation.
(B) Stable prices.
(C) A decrease in public debt.
(D) Inflation.

92. Match List I with List II by selecting the correct option.
List I: (Economic Problem)
P. Adverse Selection
Q. Moral Hazard
R. Negative Externality
S. Public Good
List II: (Market Example)
1. Air pollution by a steel mill
2. Lighthouse service
3. A person driving recklessly after getting car insurance
4. A chronically ill person being more likely to buy health insurance
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

93. The shifting of a tax burden from the person legally responsible for paying it to someone else is known as:
(A) Tax evasion.
(B) Tax avoidance.
(C) Tax shifting.
(D) Tax capitalization.

94. Which of the following is a primary objective of fiscal policy in a developing country?
(A) Maintaining a fixed exchange rate.
(B) Ensuring profitability of the private sector.
(C) Reducing the role of the government in the economy.
(D) Accelerating the rate of economic growth and development.

95. A 'sinking fund' is a method used for:
(A) The redemption of public debt.
(B) Creating a fiscal deficit.
(C) Increasing public expenditure.
(D) The collection of tax revenue.

96. Given below are two statements. Based on these statements, choose the correct option.
Statement I : All forms of public expenditure lead to an increase in the productive capacity of the economy.
Statement II : Expenditure on defence and interest payments are often considered non-developmental public expenditure.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

97. An externality occurs when:
(A) The market is not in equilibrium.
(B) The actions of one individual or firm affect the well-being of a third party not involved in the transaction.
(C) The government intervenes in the market.
(D) A good is non-rivalrous and non-excludable.

98. Consider the following events related to the passage of a public budget:
1. Presentation of the budget in the legislature.
2. Execution of the budget by government departments.
3. Parliamentary debate and voting on grants.
4. Preparation of the budget by the finance ministry.
Which of the following represents the correct chronological sequence?
(A) 4, 1, 3, 2
(B) 1, 4, 3, 2
(C) 4, 3, 1, 2
(D) 1, 3, 4, 2

99. A situation where the social costs of an economic activity exceed the private costs is known as:
(A) A positive externality.
(B) A public good.
(C) A negative externality.
(D) A merit good.

100. Which one of the following is not a remedial measure for market failure?
(A) Government provision of public goods.
(B) Imposing Pigouvian taxes to correct for externalities.
(C) Using regulation to control monopoly power.
(D) Allowing the formation of private cartels.

101. Which of the following statements about public expenditure is correct?
(A) It only refers to expenditure on capital assets.

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143. The government's fiscal policy is operated through two main instruments:
(A) Public expenditure and taxation.
(B) Money supply and interest rates.
(C) Exports and imports.
(D) Bank rate and open market operations.

144. Given below are two statements. Based on these statements, choose the correct option.
Statement I : The profit from a state-owned enterprise is a form of tax revenue.
Statement II : Fees paid for a government service, like a driver's license, are a form of non-tax revenue.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

145. A primary implication of a government pursuing an expansionary fiscal policy is:
(A) A guaranteed decrease in the price level.
(B) A likely increase in the budget deficit in the short run.
(C) A reduction in aggregate demand.
(D) An immediate balancing of the budget.

146. A situation in which the market on its own fails to allocate resources efficiently is known as:
(A) Market failure.
(B) Market equilibrium.
(C) Perfect competition.
(D) Government failure.

147. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : Fiscal deficit is a comprehensive measure of the government's borrowing requirements.
Reason (R) : It represents the excess of total expenditure over total receipts, excluding borrowings, indicating the total amount of funds the government needs to borrow.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

148. The crowding-out effect of public expenditure refers to:
(A) An increase in private investment.
(B) The positive impact of public spending on national income.
(C) The government taking over industries from the private sector.
(D) A reduction in private spending or investment due to increased government borrowing or spending.

149. Which of the following is a non-tax revenue source for the government?
(A) Income Tax
(B) Value Added Tax
(C) Escheat (claim on property with no heir)
(D) Customs Duty

150. A key feature of an indirect tax is that:
(A) Its burden cannot be shifted.
(B) It is levied on goods and services, and its burden can be shifted.
(C) It is levied on income and wealth.
(D) It is always progressive in nature.

151. Which of the following public debt management methods involves the government refusing to honour its debt obligations?
(A) Sinking Fund
(B) Conversion
(C) Capital Levy
(D) Repudiation

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152. The presence of externalities violates one of the assumptions of the First Fundamental Theorem of Welfare Economics, which is that:
(A) There is a complete set of markets for all goods and services.
(B) Markets are perfectly competitive.
(C) All producers and consumers are price takers.
(D) Information is symmetric.

153. An agreement between firms on price and output to maximize their joint profits is known as:

133. Which of the following is the best example of a direct tax?
(A) Service tax
(B) Excise duty
(C) Personal income tax
(D) Sales tax

134. Match List I with List II by selecting the correct option.
List I: (Term)
P. Tax Incidence
Q. Public Debt
R. Fiscal Policy
S. Market Failure
List II: (Associated Concept)
1. Asymmetric Information
2. Final burden of tax
3. Government borrowing
4. Budget Multiplier
(A) P-2, Q-3, R-4, S-1
(B) P-1, Q-4, R-2, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-2, R-4, S-1

135. Public expenditure on infrastructure, such as roads and bridges, is considered beneficial because it:
(A) Primarily benefits government officials.
(B) Reduces private investment opportunities.
(C) Is a form of consumption expenditure.
(D) Increases the economy's productive capacity and reduces transport costs.

136. A major effect of imposing a tax on a product is that it typically:
(A) Creates a wedge between the price paid by consumers and the price received by producers.
(B) Increases the quantity demanded and supplied.
(C) Decreases the price paid by consumers.
(D) Eliminates any deadweight loss in the market.

137. Which of the following is NOT a rationale for government intervention in the market?
(A) To correct for externalities.
(B) To provide public goods.
(C) To ensure all firms earn a profit.
(D) To regulate monopolies and promote competition.

138. Consider the following statements:
(a) Collusion is an agreement among firms to increase competition.
(b) Consumer welfare is enhanced by effective anti-collusion regulation.
(c) A cartel is a formal organization of firms that collude.
(d) Collusion leads to an outcome similar to a competitive market.
Which of the above statement(s) is/are correct?
(A) a and d
(B) b and c
(C) a and c
(D) b and d

139. The balanced budget multiplier has a value of one, which implies that if government spending and taxes are increased by the same amount:
(A) National income will not change.
(B) National income will decrease by the same amount.
(C) National income will increase by a multiple of that amount.
(D) National income will increase by the same amount.

140. Which of the following statements about public debt is correct?
(A) It is always bad for the economy.
(B) It can be a useful tool for financing public investment and managing economic cycles.
(C) Internal debt has the same burden as external debt.
(D) A government should never run a deficit and accumulate debt.

141. A tax on cigarettes is an example of a policy to address:
(A) A positive externality.
(B) Asymmetric information.
(C) A negative externality of consumption.
(D) A public good problem.

142. A 'regressive tax' is a tax where the average tax rate:
(A) increases as the taxpayer's income increases.
(B) remains the same regardless of the income level.
(C) is set by the taxpayer themselves.
(D) decreases as the taxpayer's income increases.

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without any constraints.
(C) The government should set prices for all goods and services.
(D) Collusive agreements harm consumers and reduce overall economic efficiency.

165. Match List I with List II by selecting the correct option.
List I: (Type of Revenue/Expenditure)
P. Direct Tax
Q. Indirect Tax
R. Non-Tax Revenue
S. Public Expenditure
List II: (Example)
1. Fee for a birth certificate
2. Spending on healthcare
3. Corporate income tax
4. Goods and Services Tax (GST)
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

166. A key implication of a government consistently running a large fiscal deficit is the:
(A) Automatic reduction in inflation.
(B) Need for future tax increases or spending cuts.
(C) Elimination of the need for public debt management.
(D) Decrease in the size of the national debt.

167. A good is excludable if:
(A) one person's use of it diminishes another person's use.
(B) it is provided by the government.
(C) it has a positive externality.
(D) people can be prevented from using the good.

168. Given below are two statements. Based on these statements, choose the correct option.
Statement I : A proportional tax system is a form of non-progressive taxation.
Statement II : In a proportional tax system, the average tax rate remains constant as income increases.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

169. What is the fundamental difference between tax revenue and non-tax revenue?
(A) Tax revenue is collected by the state government, while non-tax revenue is collected by the central government.
(B) Tax revenue is used for capital expenditure, and non-tax revenue is used for revenue expenditure.
(C) Tax revenue comes from compulsory levies, whereas non-tax revenue arises from other sources like fees and profits.
(D) Tax revenue is predictable, while non-tax revenue is completely unpredictable.

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170. Which of the following is not a reason for market failure?
(A) The existence of perfect competition.
(B) The presence of externalities.
(C) The provision of public goods.
(D) The problem of asymmetric information.

171. The effects of taxation refer to the impact of taxes on:
(A) The government's budget surplus only.
(B) The process of tax collection only.
(C) The legal framework of a country only.
(D) Economic decisions regarding work, saving, investment, and consumption.

172. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : The management of public debt is crucial for a country's macroeconomic stability.
Reason (R) : Poor debt management can lead to high borrowing costs, crowding out of private investment, and even sovereign debt crises.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

112. An increase in the budget deficit financed by borrowing from the public can lead to:
(A) A decrease in interest rates.
(B) An increase in interest rates and crowding out of private investment.
(C) A decrease in the money supply.
(D) An appreciation of the domestic currency.

113. Match List I with List II by selecting the correct option.
List I: (Fiscal Policy Action)
P. Increase in public expenditure
Q. Decrease in taxes
R. Decrease in public expenditure
S. Increase in taxes
List II: (Type of Fiscal Policy)
1. Contractionary
2. Contractionary
3. Expansionary
4. Expansionary
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

114. If a tax is progressive, the elasticity of tax revenue with respect to income is:
(A) Greater than one.
(B) Less than one.
(C) Equal to one.
(D) Equal to zero.

115. The 'free-rider' problem is most closely associated with which type of market failure?
(A) Asymmetric information
(B) Negative externalities
(C) Public goods
(D) Monopoly power

116. Which statement accurately describes the relationship between the budget multiplier and the marginal propensity to consume (MPC)?
(A) They are inversely related.
(B) There is no relationship between them.
(C) The budget multiplier is the reciprocal of the MPC.
(D) They are positively related.

117. The effect of a tax on the distribution of income is a central concern of:
(A) The efficiency of taxation.
(B) The administration of taxation.
(C) The equity or fairness of taxation.
(D) The classification of taxes.

118. Which of the following is not a method for managing public debt?
(A) Sinking fund
(B) Debt monetization by private firms
(C) Debt conversion
(D) Debt repudiation

119. A government subsidy to promote the consumption of a good with positive externalities is intended to:
(A) Increase the private cost of consumption.
(B) Create a negative externality.
(C) Reduce consumer welfare.
(D) Align the private benefit with the social benefit.

120. Which of the following statements about direct and indirect taxes is incorrect?
(A) The burden of an indirect tax is always borne entirely by the final consumer.
(B) Direct taxes are generally considered more progressive.
(C) Indirect taxes are easier to collect and harder to evade.
(D) The burden of a direct tax cannot be shifted.

121. Consider the following statements related to fiscal policy:
(a) It involves the use of government spending and taxation.
(b) Its primary instruments are managed by the central bank.
(c) An expansionary fiscal policy aims to curb inflation.
(d) It can be used to influence the pattern of resource allocation.
(e) The 'crowding-out effect' is a potential negative implication.
Which of the above statement(s) is/are correct?
(A) a, b, and c
(B) a, d, and e

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2. An insured person behaves more recklessly.
3. One person's use does not prevent others from using a good.
4. It is difficult to stop people from using a good.

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-2, S-1
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-3, R-1, S-2

184. The difference between a progressive and a non-progressive tax is that a progressive tax has:
(A) An increasing average tax rate as income rises.
(B) A constant average tax rate.
(C) A decreasing average tax rate.
(D) A tax base that does not change.

185. A government budget that plans for expenditures exceeding revenues is called a:
(A) Surplus budget.
(B) Balanced budget.
(C) Deficit budget.
(D) Zero-based budget.

186. The existence of a negative externality, like pollution, leads to a market outcome where the quantity produced is:
(A) Greater than the socially optimal quantity.
(B) Socially optimal.
(C) Less than the socially optimal quantity.
(D) Equal to zero.

187. Which of the following is NOT an instrument of fiscal policy?
(A) Public expenditure
(B) Taxation
(C) Public debt
(D) Bank rate

188. Regulation of markets is often justified on the grounds of improving:
(A) Producer profits.
(B) Consumer welfare.
(C) Government revenue.
(D) Foreign trade balance.

189. Consider the following statements about market failure:
(a) It occurs when a market is perfectly competitive.
(b) Externalities are a major source of market failure.
(c) Asymmetric information can lead to inefficient market outcomes.
(d) The government itself cannot be a source of failure.

Which of the above statement(s) is/are correct?
(A) a and d
(B) b and c
(C) a and c
(D) b and d

190. A sinking fund for public debt is a fund:
(A) Created by borrowing more from the public.
(B) Used for financing new public expenditure.
(C) That represents the total interest payment on the debt.
(D) Built up by setting aside a part of government revenue annually to repay the debt.

191. If the budget multiplier is 2, a $100 billion increase in government spending will lead to:
(A) A $200 billion increase in national income.
(B) A $100 billion increase in national income.
(C) A $50 billion increase in national income.
(D) No change in national income.

192. Consider the following steps from cause to policy effect:
1. The market overproduces a good with a negative externality.
2. The government levies a Pigouvian tax.
3. A factory pollutes a river, imposing costs on a downstream fishery.
4. The factory reduces its output to the socially optimal level.

Which of the following represents the correct chronological sequence?
(A) 1, 2, 3, 4
(B) 3, 1, 2, 4
(C) 2, 1, 4, 3
(D) 3, 2, 1, 4

193. Direct taxes are so-called because they are:
(A) Levied directly on goods and services.
(B) Collected directly from the persons on whom they are imposed.
(C) Always proportional to income.
(D) Easy to evade.

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raise prices above the competitive level and restrict supply. This directly reduces consumers' welfare in several ways. First, consumers are forced to pay higher prices for goods and services than they would in a competitive market, leading to a loss of consumer surplus. Second, the reduction in output means that some consumers who would have purchased the good at a competitive price are now unable to do so. Third, collusion can stifle innovation and efficiency, as firms face less pressure to improve products or reduce costs. Market regulation, enforced by antitrust authorities, aims to detect and dismantle such collusive arrangements, such as cartels. By imposing fines, legal sanctions, and promoting a competitive environment, regulators seek to protect consumers from exploitation and ensure that the market delivers outcomes closer to the competitive ideal, thereby maximizing overall welfare.

Based on the above source, attempt the following five questions.

266. What is the primary objective of firms engaged in collusion?
(A) To increase consumer surplus.
(B) To limit competition and increase joint profits.
(C) To promote market innovation and efficiency.
(D) To reduce prices below the competitive level.

267. According to the passage, how does collusion directly impact consumers' welfare?
(A) By increasing the variety of goods available.
(B) By forcing consumers to pay higher prices and reducing output.
(C) By lowering prices and increasing consumer surplus.
(D) By encouraging firms to improve product quality.

268. The passage suggests that colluding firms, when successful, behave most like a:
(A) single monopoly.
(B) perfectly competitive firm.
(C) non-profit organization.
(D) government agency.

269. The role of market regulation in the context of collusion is to:
(A) facilitate the formation of cartels to stabilize prices.
(B) assist firms in dividing market territories to avoid conflict.
(C) protect consumers by detecting and punishing anti-competitive agreements.
(D) set a single, uniform price for all goods in the industry.

270. A loss of consumer surplus, as mentioned in the text, refers to:
(A) the inability of firms to make a profit.
(B) the excess inventory held by firms due to overproduction.
(C) the total revenue lost by the government due to tax evasion.
(D) the reduction in the difference between what consumers are willing to pay and what they actually pay.

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Direction : Please read the following source carefully.

Public revenue refers to the income of the government from all sources, which is essential for funding public expenditure. This revenue is broadly classified into tax revenue and non-tax revenue. Tax revenue is the primary source of income and involves compulsory levies imposed by the government on individuals and entities without any direct quid pro quo. Taxes are further categorized into direct and indirect taxes. Direct taxes are levied on the income and wealth of individuals and corporations, and their burden cannot be easily shifted to others. Examples include income tax and corporate tax. The impact and incidence of a direct tax fall on the same person. In contrast, indirect taxes are levied on goods and services. The immediate liability to pay the tax, its impact, may fall on the producer or seller, but the burden, or incidence, is typically shifted to the final consumer in the form of higher prices. Examples include Goods and Services Tax (GST) and customs duties. Non-tax revenue, on the other hand, comprises income earned by the government from sources other than taxes. This includes fees for government services (e.g., passport fees), fines and penalties, profits from public sector undertakings, grants from foreign governments, and interest receipts on loans given

income increases.
(B) A system where the tax rate is the same for all income levels.
(C) A system based on the ability-to-pay principle.
(D) A system with multiple tax brackets and increasing marginal rates.

205. The primary tool for implementing fiscal policy is:
(A) The central bank's monetary policy committee.
(B) The stock market regulator.
(C) The annual government budget.
(D) The international trade agreements.

206. Given below are two statements. Based on these statements, choose the correct option.
Statement I : External debt is the part of a country's total debt that is owed to creditors outside the country.
Statement II : External debt management is simpler than internal debt management as it does not involve foreign exchange risk.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

207. A public good can be distinguished from a private good because a public good is:
(A) Non-rivalrous and non-excludable.
(B) Rivalrous and excludable.
(C) Produced only by the public sector.
(D) Always free of cost.

208. The main reason for regulating markets characterized by collusion is to enhance:
(A) Producer surplus at the expense of consumers.
(B) Economic efficiency and consumer welfare.
(C) Government control over production.
(D) The profits of the colluding firms.

209. All of the following are typically classified as indirect taxes ExCEPT:
(A) Goods and Services Tax (GST).
(B) Wealth tax.
(C) Customs duties.
(D) Excise duties.

210. Consider the following statements regarding fiscal policy:
(a) An expansionary fiscal policy could involve lowering taxes.
(b) A contractionary fiscal policy could involve reducing government spending.
(c) Fiscal policy can have implications for public debt.
(d) The main goal of fiscal policy is to control the money supply.
Which of the above statement(s) is/are correct?
(A) a, b, and c
(B) a, c, and d
(C) b, c, and d
(D) a, b, and d

211. In a public budget, the difference between total revenue and total expenditure is known as the:
(A) Revenue deficit.
(B) Fiscal deficit.
(C) Overall budget surplus or deficit.
(D) Primary deficit.

212. A Pigouvian tax is a tax levied on an activity that generates:
(A) A positive externality.
(B) A public good.
(C) Asymmetric information.
(D) A negative externality.

213. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : The incidence of a tax does not necessarily fall on the person who is legally responsible for paying it.
Reason (R) : The burden of a tax can be shifted to others through changes in market prices, depending on the elasticities of demand and supply.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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194. The concept of consumer's welfare is often measured in microeconomics by:
(A) Consumer surplus.
(B) Producer surplus.
(C) The price of the good.
(D) The quantity of the good sold.

195. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : In the case of a public good, the market demand curve is obtained by the vertical summation of individual demand curves.
Reason (R) : For a public good, all individuals consume the same quantity, but they may have different marginal valuations (willingness to pay) for that quantity.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

196. The management of public debt is concerned with all the following ExCEPT:
(A) Minimizing the cost of borrowing.
(B) Determining the maturity structure of the debt.
(C) Deciding the currency denomination of the debt.
(D) Setting the price level for the entire economy.

197. The budget multiplier is higher if:
(A) The marginal propensity to save is high.
(B) The tax rate is high.
(C) The marginal propensity to consume is high.
(D) The economy is at full employment.

198. An implication of pursuing a contractionary fiscal policy to fight inflation is:
(A) An increase in the budget deficit.
(B) A potential rise in unemployment.
(C) A surge in economic growth.
(D) An increase in aggregate demand.

199. A 'lump-sum tax' is an example of a:
(A) Progressive tax.
(B) Proportional tax.
(C) Tax that varies with income.
(D) Regressive tax.

200. Which of the following situations is NOT an example of market failure?
(A) A market with many buyers and sellers where price adjusts to equate supply and demand for a private good.
(B) A steel mill pollutes the air.
(C) A single company controls the entire supply of a vital medicine.
(D) It is impossible to build a profitable private road because you cannot charge every car that uses it.

201. Match List I with List II by selecting the correct option.
List I: (Type of Good/Service)
P. National Defence
Q. A can of soda
R. A college education
S. Fish in the open ocean
List II: (Economic Classification)
1. Private Good
2. Public Good
3. Common Resource
4. Good with Positive Externality
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-1, R-3, S-4
(D) P-3, Q-4, R-1, S-2

202. The effect of a tax on the supply of labour is an important consideration in the study of:
(A) The effects of taxation.
(B) The shifting of taxes.
(C) The incidence of taxes.
(D) The classification of taxes.

203. Which of the following statements about public expenditure is incorrect?
(A) It is a component of aggregate demand.
(B) It can be used to influence income distribution.
(C) It includes both consumption and investment spending by the government.
(D) It has no role in correcting market failures.

204. Which of the following represents a non-progressive tax system?
(A) A system where the tax rate increases as

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Q. Externality
R. Fiscal Deficit
S. Progressive Tax

List II: (Characteristic/Example)

1. Corrected by a Pigouvian tax or subsidy
2. Non-rival and non-excludable
3. Average tax rate rises with income
4. Indicates government's total borrowing requirement

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

226. A major 'effect of taxation' is the substitution effect, which describes how taxes can:
(A) Alter the relative prices of goods, leisure, and work.
(B) Increase a person's disposable income.
(C) Only impact the rich.
(D) Be a substitute for government spending.

227. The term 'collusion' is best described as:
(A) Aggressive price wars between rival firms.
(B) A government-sponsored program to help small businesses.
(C) A secret or illegal cooperation between firms to deceive or cheat others.
(D) The process of a large firm acquiring a smaller one.

228. Which of the following is a direct tax?
(A) Customs duty
(B) Excise duty
(C) Goods and Services Tax (GST)
(D) Securities Transaction Tax (STT)

229. Given below are two statements. Based on these statements, choose the correct option.
Statement I : Public expenditure on social services like health and education is considered non-developmental.
Statement II : Public expenditure on defense and administration is considered developmental.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct but Statement II is incorrect.
(D) Statement I is incorrect but Statement II is correct.

230. A remedial measure for the market failure of public goods is:
(A) Private provision by firms.
(B) Government provision financed through taxation.
(C) Imposing a tax on the consumption of the good.
(D) Banning the production of the good.

231. The burden of public debt refers to:
(A) The benefits received from public expenditure.
(B) The process of creating a public budget.
(C) The assets created using borrowed funds.
(D) The sacrifices imposed on the community due to government borrowing.

232. An increase in the budget multiplier effect would result from:
(A) A decrease in the marginal propensity to save.
(B) An increase in the marginal propensity to save.
(C) An increase in tax rates.
(D) A decrease in government spending.

233. The 'incidence' of an indirect tax on a product depends on:
(A) The government's need for revenue.
(B) The cost of producing the product.
(C) The relative price elasticities of demand and supply.
(D) The method of tax collection.

234. Consider the following characteristics of taxation:
(a) The average tax rate increases with income.
(b) It is based on the ability-to-pay principle.
(c) It tends to reduce income inequality.
(d) It is a form of non-progressive taxation.
(e) The average tax rate is constant for all income levels.

Which of the above are associated with a progressive tax system?
(A) a, d, and e
(B) d and e
(C) a, b, and c
(D) c, d, and e

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235. The main implication of fiscal policy is its impact on:
(A) The composition of the board of directors in private companies.
(B) The day-to-day operations of the central bank.
(C) International diplomatic relations.
(D) The overall level of aggregate demand, output, and employment.

236. A situation where the social costs of an economic activity exceed the private costs is known as:
(A) A positive externality.
(B) A negative externality.
(C) A public good.
(D) A merit good.

237. Which of the following best defines non-tax revenue?
(A) Revenue generated from compulsory levies on income and goods.
(B) Revenue received by the government from sources other than taxes, such as fees, fines, and profits of PSUs.
(C) Revenue that is not included in the public budget.
(D) Borrowings by the government from the public.

238. Given below are two statements, one is labelled as Assertion (A) and the other as Reason (R). Based on these statements, choose the correct option.
Assertion (A) : A well-managed public debt portfolio can support fiscal and monetary policy.
Reason (R) : The size and structure of public debt can influence interest rates, liquidity in the financial system, and the government's ability to conduct counter-cyclical fiscal policy.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

239. 'Consumer welfare' is said to decrease when:
(A) Firms collude to raise prices above the competitive level.
(B) Prices fall and quality increases.
(C) More firms enter a market, increasing competition.
(D) The government provides a subsidy to consumers.

240. The budget multiplier concept is central to the:
(A) Monetarist school of thought.
(B) Keynesian school of thought.
(C) Classical school of thought.
(D) Austrian school of thought.

241. Which one of the following is an example of an indirect tax?
(A) Income Tax
(B) Value Added Tax (VAT)
(C) Corporate Tax
(D) Estate Duty

242. Market failure arises from asymmetric information because:
(A) One party has more information than another, leading to poor decisions.
(B) The good in question is non-rivalrous.
(C) The production process causes pollution.
(D) The government has imposed too many regulations.

243. The primary difference between fiscal deficit and revenue deficit is that fiscal deficit:
(A) Is always smaller than revenue deficit.
(B) Includes capital expenditure while revenue deficit does not.
(C) Accounts for the government's total borrowing needs, including for capital creation.
(D) Excludes interest payments.

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244. A proportional tax is:
(A) Progressive.
(B) Regressive.
(C) A tax whose rate changes with income.
(D) A type of non-progressive tax.

245. The 'crowding out' effect is a potential negative consequence of:
(A) Contractionary fiscal policy.
(B) A balanced budget.
(C) Expansionary fiscal policy.
(D) Monetary policy.

246. Public expenditure is undertaken by the government primarily to:

(A) Maximize its own profits.
(B) Fulfill its social and economic objectives.
(C) Compete with private companies.
(D) Increase the level of public debt.

247. The 'incidence of taxation' studies:
(A) Who is legally required to pay the tax.
(B) The process of collecting the tax.
(C) The revenue generated by the tax.
(D) Who bears the final economic burden of the tax.

248. Match List I with List II by selecting the correct option.
List I: (Market Failure)
P. Public Good
Q. Negative Externality
R. Asymmetric Information
S. Collusion
List II: (Remedial Measure)
1. Pigouvian Tax
2. Antitrust Legislation
3. Government Provision
4. Disclosure Requirements/Regulation
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-3, R-2, S-1

249. Which one of the following is NOT an objective of fiscal policy?
(A) Price stability
(B) Economic growth
(C) Regulation of the money supply
(D) Reduction in income inequality

250. Which of the following scenarios best illustrates the problem of 'adverse selection'?
(A) A person who is a heavy smoker and has a family history of cancer is more likely to apply for life insurance than a healthy person.
(B) After buying fire insurance, a homeowner becomes less careful about fire safety.
(C) A situation where a factory emits industrial smoke that harms the local community.
(D) A national army that protects all citizens, regardless of whether they pay taxes.

Direction : Please read the following source carefully.

Market failure denotes a situation where the free market's allocation of goods and services is not Pareto efficient, often leading to a net loss of societal welfare. A primary cause of this inefficiency is asymmetric information, a condition where one party in an economic transaction possesses more material knowledge than the other. This information imbalance can distort outcomes and prevent markets from functioning optimally. Asymmetric information typically manifests in two principal forms: moral hazard and adverse selection. Adverse selection arises before a transaction occurs, where the party with more information about their own attributes has a selection advantage, potentially leading to a market dominated by low-quality goods or high-risk individuals. For instance, the market for used cars may be plagued by 'lemons' because sellers know more about the vehicle's quality than buyers. Conversely, moral hazard occurs after a transaction is completed, describing a situation where a party changes their behavior to be riskier because they do not bear the full costs of that risk. An example is an insured individual taking fewer precautions against theft. Remedial measures to mitigate these issues include signaling, screening, and government regulation, all designed to bridge the information gap and move the market closer to an efficient outcome.
Based on the above source, attempt the following five questions.

251. According to the passage, what is the fundamental problem caused by asymmetric information?
(A) It leads to an overproduction of public goods.
(B) It results in an inefficient allocation of resources.
(C) It ensures perfect competition in all markets.
(D) It eliminates all forms of externalities.

252. Which of the following scenarios best illustrates the concept of adverse selection?
(A) A person with a high-risk health profile being more likely to purchase health insurance.
(B) A company polluting a river without paying for the environmental damage.
(C) An individual with a comprehensive health insurance policy skipping their annual

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check-up.
(D) A government imposing a tax on a product to discourage its consumption.

253. The distinction between moral hazard and adverse selection is primarily based on:
(A) The type of market in which they occur.
(B) The level of government intervention required to solve them.
(C) The timing of the information asymmetry relative to the transaction.
(D) The degree of consumer welfare loss involved.

254. As described in the source, moral hazard is a phenomenon that happens:
(A) Prior to the finalization of a contract.
(B) Only in markets for public goods.
(C) As a direct result of government regulation.
(D) After a transaction has been concluded.

255. What is the objective of remedial measures like signaling and screening?
(A) To increase the information imbalance between parties.
(B) To encourage collusive behavior among firms.
(C) To reduce the information gap and improve market efficiency.
(D) To create a market dominated by low-quality goods.

Direction : Please read the following source carefully.

Public goods represent a classic example of market failure, as they are unlikely to be provided efficiently, if at all, by the private sector. The defining characteristics of a pure public good are non-rivalry and non-excludability. Non-rivalry means that one person's consumption of the good does not diminish the amount available for others to consume. National defense is a prime example; one citizen's protection does not reduce the protection afforded to another. Non-excludability implies that it is impossible or prohibitively expensive to prevent individuals who have not paid for the good from consuming it. Once a lighthouse is built, it is difficult to exclude any ship from benefiting from its light. These two characteristics give rise to the free-rider problem, where individuals have an incentive to consume the good without contributing to its cost, assuming others will pay for it. Since private firms are motivated by profit, they cannot operate viably if they cannot exclude non-payers. Consequently, they will under-produce or not produce public goods at all, even if the total social benefit far exceeds the cost of provision. This necessitates government intervention, typically through direct provision funded by taxation, to ensure these beneficial goods are available to society.

Based on the above source, attempt the following five questions.

256. Which pair of characteristics defines a pure public good?
(A) Rivalry and Excludability
(B) Non-rivalry and Non-excludability
(C) Asymmetric Information and Externality
(D) Progressive and Non-Progressive

257. The free-rider problem leads to which of the following outcomes in a private market?
(A) Over-production of the public good.
(B) Efficient pricing of the public good.
(C) Increased consumer welfare through lower prices.
(D) Under-production or non-production of the public good.

258. Why is national defense considered a classic example of a public good?
(A) Because it is a service that is both non-rivalrous and non-excludable.
(B) Because it is provided by private corporations under government contract.
(C) Because its consumption is both rivalrous and excludable.
(D) Because only taxpayers are permitted to benefit from it.

259. According to the passage, the inability of private firms to overcome the free-rider problem necessitates:
(A) The establishment of market collusion.
(B) The imposition of indirect taxes on all goods.
(C) Government intervention for the provision of the good.
(D) The complete deregulation of the market.

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260. The concept of non-rivalry implies that the marginal cost of providing a public good to an additional user is:
(A) essentially zero.
(B) infinitely high.
(C) equal to the average cost.
(D) progressively increasing.

Direction : Please read the following source carefully.

An externality occurs when the production or consumption of a good or service imposes a cost or a benefit on a third party who is not directly involved in the market transaction. These spillover effects are not reflected in the market price of the good, leading to a divergence between private costs/benefits and social costs/benefits, which in turn causes market failure. Externalities can be negative or positive. A negative externality, such as pollution from a factory, imposes an external cost on society. In this case, the social cost of production (private cost plus external cost) is higher than the private cost borne by the producer. Left unregulated, the firm will overproduce the good because it does not account for the full social cost. Conversely, a positive externality, such as the societal benefits from vaccination, confers an external benefit. Here, the social benefit (private benefit plus external benefit) exceeds the private benefit received by the individual. In a free market, goods with positive externalities tend to be under-consumed or under-produced. Remedial measures aim to internalize the externality by aligning private incentives with social costs and benefits. For negative externalities, this can involve Pigouvian taxes (a tax equal to the marginal external cost), while for positive externalities, subsidies can be used to encourage production and consumption.

Based on the above source, attempt the following five questions.

261. What is the core reason externalities lead to market failure?
(A) All externalities are inherently illegal and disrupt markets.
(B) Governments are unable to measure the impact of externalities.
(C) Externalities only affect the direct participants in a transaction.
(D) Market prices do not reflect the full social costs or benefits.

262. In the presence of a negative externality, a free market will tend to:
(A) produce less than the socially optimal quantity.
(B) produce more than the socially optimal quantity.
(C) produce the socially optimal quantity automatically.
(D) cease production of the good entirely.

263. The purpose of a Pigouvian tax is to:
(A) provide a subsidy for goods with positive externalities.
(B) increase the public debt through a new revenue source.
(C) make private costs align with social costs for a negative externality.
(D) regulate markets experiencing asymmetric information.

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264. Which of the following is an example of a positive externality?
(A) A chemical factory dumping waste into a river.
(B) An individual receiving an education that benefits society as a whole.
(C) A consumer paying a higher price due to a firm's monopoly power.
(D) An individual receiving an education that benefits society as a whole.

265. According to the passage, when a positive externality exists, the social benefit is:
(A) greater than the private benefit.
(B) less than the private benefit.
(C) equal to the private benefit.
(D) completely unrelated to the private benefit.

Direction : Please read the following source carefully.

The regulation of markets is a critical function of public economics, particularly in addressing anti-competitive behaviors that harm consumers' welfare. One such behavior is collusion, an agreement among firms in a market to limit competition. This can involve fixing prices, limiting output, or dividing market territories. By coordinating their actions, colluding firms can effectively act as a monopoly, enabling them to

214. Which of the following is not a function of the public budget?
(A) Allocation of resources.
(B) Regulation of the stock market.
(C) Redistribution of income and wealth.
(D) Economic stabilization.

215. 'Moral hazard' and 'adverse selection' are problems related to which type of market failure?
(A) Public goods
(B) Externalities
(C) Monopoly
(D) Asymmetric information

216. The government can influence consumer welfare through regulation by:
(A) Enforcing anti-collusion laws to ensure competitive pricing.
(B) Promoting the formation of cartels.
(C) Banning all advertising.
(D) Setting prices at a level that guarantees maximum profit for producers.

217. A progressive tax system is based on the principle of:
(A) Benefits received.
(B) A flat rate for all.
(C) Ability to pay.
(D) Encouraging savings.

218. An increase in public expenditure on unemployment benefits during a recession is an example of:
(A) An automatic stabilizer.
(B) A discretionary fiscal policy.
(C) A monetary policy tool.
(D) A public debt management strategy.

219. Consider the following items:
(a) Income from Corporation Tax
(b) Borrowings from the World Bank
(c) Fees collected for land registration
(d) Grants received from foreign countries
(e) Sale proceeds from disinvestment of a PSU
Which of the above statement(s) is/are part of a government's Public Revenue?
(A) a, b, and e
(B) a, c, and d
(C) b, d, and e
(D) a, b, c, and d

220. Public debt management aims to achieve all of the following ExCEPT:
(A) Ensuring government's financing needs are met.
(B) Minimizing borrowing costs over the long run.
(C) Maintaining a stable and efficient market for government securities.
(D) Maximizing the level of public debt to stimulate the economy.

221. The value of the budget multiplier is determined by:
(A) The level of government spending.
(B) The size of the public debt.
(C) The marginal propensity to consume.
(D) The rate of inflation.

222. Which of the following is an example of a non-progressive tax?
(A) A tax with marginal rates that increase with income.
(B) A tax based on the ability to pay principle.
(C) An income tax with multiple brackets and increasing rates.
(D) A tax with a constant marginal rate for all income levels.

223. The problem of 'market failure' suggests that in some cases:
(A) Government intervention can potentially improve upon market outcomes.
(B) Market outcomes are always efficient and equitable.
(C) The government should never intervene in the economy.
(D) All goods and services should be produced by the public sector.

224. Which of the following actions represents an expansionary fiscal policy?
(A) The central bank raises interest rates.
(B) The government increases its expenditure on infrastructure.
(C) The government increases income tax rates.
(D) The government sells its bonds to the public.

225. Match List I with List II by selecting the correct option.
List I: (Fiscal Concept)
P. Public Good

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by the government.
Based on the above source, attempt the following five questions.

271. What is the fundamental difference between tax revenue and non-tax revenue?
(A) Tax revenue is voluntary, while non-tax revenue is compulsory.
(B) Tax revenue only comes from individuals, while non-tax revenue comes from corporations.
(C) Tax revenue is a compulsory levy, while non-tax revenue is earned from other sources.
(D) Tax revenue is used for public expenditure, while non-tax revenue is saved.

272. Which of the following is a defining characteristic of a direct tax?
(A) Its burden can be easily shifted to another person.
(B) Its impact and incidence fall on the same entity.
(C) It is levied on goods and services rather than income.
(D) It is a voluntary contribution to the government.

273. Based on the passage, which of the following is an example of non-tax revenue?
(A) Corporate tax
(B) Income tax
(C) Goods and Services Tax (GST)
(D) Profits from public sector undertakings

274. The passage explains that the incidence of an indirect tax is typically borne by:
(A) the final consumer.
(B) the government.
(C) the producer or seller.
(D) foreign aid agencies.

275. The distinction between the 'impact' and 'incidence' of a tax is most relevant for understanding:
(A) the total amount of tax collected.
(B) the process of calculating non-tax revenue.
(C) the difference between direct and indirect taxes.
(D) the ratio of tax revenue to public debt.

Direction : Please read the following source carefully.

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The structure of a tax system is a critical aspect of public finance, with significant implications for equity and income distribution. Taxation can be classified as progressive, non-progressive (which includes proportional and regressive), based on the relationship between the tax rate and the taxpayer's income or wealth. A progressive tax system is one where the average tax rate increases as the tax base (e.g., income) increases. This means higher-income individuals pay a larger percentage of their income in taxes than lower-income individuals, embodying the ability to pay principle. In contrast, a proportional tax, or flat tax, imposes the same percentage tax rate on all taxpayers, regardless of their income level. A regressive tax is one where the average tax rate decreases as income increases; lower-income individuals pay a higher proportion of their income in taxes. An important related concept is tax incidence, which refers to the final distribution of the tax burden. The statutory incidence is on whom the tax is legally imposed, but the economic incidence, or who ultimately bears the cost, depends on the relative price elasticities of demand and supply. The burden of a tax will fall more heavily on the side of the market (buyers or sellers) that is less elastic, meaning less responsive to price changes.
Based on the above source, attempt the following five questions.

276. In a progressive taxation system, what is the relationship between income and the average tax rate?
(A) As income increases, the average tax rate increases.
(B) As income increases, the average tax rate decreases.
(C) As income increases, the average tax rate remains constant.
(D) Income level has no bearing on the average tax rate.

277. A tax system where all taxpayers pay 15% of their income in taxes, regardless of their income level, is best described as:
(A) progressive.
(B) regressive.
(C) non-tax revenue.
(D) proportional.

because the incidence of an indirect tax is not always borne entirely by consumers. Instead, the actual burden depends on the relative price elasticities of demand and supply within the specific market for that good.

17. (B) Regressive taxation.
Regressive taxation describes a system where the tax rate decreases as the amount of taxable income increases. This means that lower-income individuals pay a larger percentage of their income in taxes compared to higher-income individuals. Such systems are often criticized for placing a disproportionate financial burden on the poor. Indirect taxes on essential goods are frequently cited as examples because they take more from.

18. (C) 2, 1, 3, 4
Standard public debt management involves a logical sequence to ensure fiscal stability. First, a sinking fund is created to accumulate revenues for future repayment. Second, debt conversion may be used to replace old high-interest loans with new ones. Third, actual debt repayment occurs using the accumulated funds. Debt repudiation is an extreme measure involving the refusal to pay, typically occurring only under severe political.

19. (C) Corporation Tax.
Corporation tax is a primary example of a direct tax because the legal impact and the economic incidence fall on the same entity. It is levied on the net profits of companies and cannot be shifted to other parties in the same manner as indirect taxes. Direct taxes are essential tools for government revenue and are often structured progressively to ensure fairness in corporate.

20. (D) Adverse Selection - Post-contractual information asymmetry
Adverse selection is a type of market failure caused by asymmetric information that occurs before a transaction takes place. It happens when one party has more information about their risk profile than the other. This differs from moral hazard, which involves unobservable behavior after a contract is signed. Correctly identifying these distinct problems is crucial for implementing appropriate regulatory solutions and improving overall market efficiency.

21. (C) Through private bargaining between the affected parties.
The Coase theorem posits that externalities can be efficiently resolved through private negotiations between the parties involved. This outcome is possible provided that property rights are clearly defined and the costs of bargaining are negligible. In such scenarios, the affected individuals can reach an agreement that internalizes the external costs or benefits without government intervention. This approach emphasizes the role of private property in.

22. (B) Central, state, and local governments.
Public expenditure comprises all spending incurred by government bodies at various levels, including central, state, and local authorities. This spending is directed toward providing public goods, essential services, and infrastructure that benefit society as a whole. It serves as a vital tool of fiscal policy, used to promote economic growth, redistribute income, and achieve social welfare objectives that private markets might otherwise fail.

23. (B) P-3, Q-2, R-1, S-4
Taxation systems vary based on how rates relate to income. A progressive tax increases in rate as income grows, while a regressive tax places a higher relative burden on lower-income groups. Proportional taxes maintain a constant rate regardless of earnings. Indirect taxes are specifically levied on goods and services rather than directly on income. Understanding these distinctions is fundamental to analyzing the equity and efficiency.

24. (A) Aggregate demand in the economy.
Fiscal policy primarily influences the level of aggregate demand within an economy by adjusting government spending and taxation levels. When the government increases its expenditure or reduces taxes, it stimulates total spending, which can help increase output and employment. Conversely, reducing spending or increasing taxes can dampen demand to control inflation. This management of total demand is essential for achieving macroeconomic stability and growth.

25. (C) A change in government spending and taxes affects national income.

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(B) Repayment of the principal amount of a loan.
(C) Payment of pensions to retired government employees.
(D) The purchase of new machinery for a government factory.

Direction : Please read the following source carefully.

Public debt is the total amount, including total liabilities, borrowed by the government to meet its development and other expenditures. When government spending exceeds its revenue, it results in a deficit that is often financed through borrowing, leading to the accumulation of public debt. This debt can be categorized as internal or external. Internal debt is owed to lenders within the country, such as individuals, commercial banks, and the central bank. External debt is owed to foreign creditors, which could be foreign governments, international financial institutions like the IMF or World Bank, or foreign commercial banks. The management of public debt is a critical aspect of fiscal policy. Prudent debt management involves ensuring that the government's financing needs are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Unsustainable levels of public debt can have severe negative consequences, including higher interest rates, crowding out of private investment, increased inflationary pressure, and a potential sovereign debt crisis. Therefore, governments must manage the size, composition, and maturity structure of their debt portfolio carefully to maintain macroeconomic stability and ensure long-term fiscal sustainability.

Based on the above source, attempt the following five questions.

286. Public debt accumulates when:
(A) government revenue exceeds its expenditure.
(B) the economy is in a state of perfect equilibrium.
(C) tax rates are made highly progressive.
(D) government expenditure exceeds its revenue.

287. What is the key difference between internal debt and external debt?
(A) The interest rate charged on the borrowing.
(B) The purpose for which the funds are used.
(C) The location and identity of the creditors.
(D) The currency in which the debt is denominated.

288. According to the passage, what is a primary goal of public debt management?
(A) To maximize the amount of debt a country can borrow.
(B) To finance government needs at the lowest possible cost with prudent risk.
(C) To exclusively borrow from external sources to preserve domestic capital.
(D) To eliminate public debt entirely within a single fiscal year.

289. The phenomenon where government borrowing leads to a reduction in private investment is known as:
(A) market failure.
(B) fiscal drag.
(C) moral hazard.
(D) crowding out.

290. Borrowing from the World Bank would be classified as:
(A) external debt.
(B) internal debt.
(C) non-tax revenue.
(D) capital expenditure.

Direction : Please read the following source carefully.

The public budget is an annual financial statement presenting the government's proposed revenues and spending for a fiscal year. It serves as a primary instrument for implementing fiscal policy and reflects the government's priorities and economic outlook. A crucial concept related to the budget's impact on the economy is the budget multiplier. The budget multiplier quantifies the magnified effect of a change in government fiscal policy (specifically, a change in government spending or taxation) on the aggregate demand and, consequently, on the national income. For instance, the government spending multiplier shows how much the national income changes for a one-unit change in government expenditure. Similarly, the tax multiplier measures the change in national income resulting from a one-unit change in taxation. A special case is the balanced budget multiplier, which demonstrates that an

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equal increase in government spending and taxes will lead to an increase in national income equal to the size of the change. This implies that even a budget that is in balance can have an expansionary effect on the economy. The size of these multipliers is influenced by factors like the marginal propensity to consume (MPC), with a higher MPC leading to a larger multiplier effect.

Based on the above source, attempt the following five questions.

291. A public budget is best described as:
(A) a record of a country's historical public debt.
(B) a list of all public goods to be provided in a year.
(C) a statement of the government's estimated revenues and expenditures.
(D) a legal document outlawing market collusion.

292. What does the budget multiplier concept explain?
(A) The magnified impact of fiscal policy changes on national income.
(B) The process of managing public debt.
(C) The ratio of direct to indirect taxes.
(D) The sources of non-tax revenue for the government.

293. The balanced budget multiplier theory suggests that an equal increase in government spending and taxation will:
(A) have a contractionary effect on the economy.
(B) have no effect on the national income.
(C) cause a severe sovereign debt crisis.
(D) lead to an increase in national income.

294. The magnitude of the government spending multiplier is positively related to the:
(A) marginal propensity to save.
(B) marginal propensity to consume.
(C) level of public debt.
(D) rate of inflation.

295. The tax multiplier measures the effect on national income resulting from a change in:
(A) government spending.
(B) interest rates.
(C) taxation.
(D) public debt.

Direction : Please read the following source carefully.

Fiscal policy is the use of government revenue collection (primarily taxes) and expenditure (spending) to influence a country's economy. It is a key tool of macroeconomic management, used alongside monetary policy to achieve major economic goals. The primary objectives of fiscal policy include macroeconomic stabilization, which involves managing aggregate demand to control inflation and combat unemployment. During a recession, a government might implement an expansionary fiscal policy, which involves increasing public expenditure or decreasing taxes to boost aggregate demand and stimulate economic activity. Conversely, during a period of high inflation, a contractionary fiscal policy, involving decreased public spending or increased taxes, can be used to dampen aggregate demand. Beyond stabilization, fiscal policy has significant implications for long-term economic growth and income distribution. Investments in infrastructure, education, and health through public expenditure can enhance a country's productive capacity. Furthermore, progressive tax and transfer systems can be used to redistribute income from higher-income to lower-income households, addressing inequality. The effectiveness of fiscal policy can be influenced by factors such as the size of the multiplier, time lags in implementation, and the potential for crowding out private investment.

Based on the above source, attempt the following five questions.

296. According to the passage, fiscal policy involves the government's use of:
(A) interest rate manipulation and money supply control.
(B) international trade agreements and tariffs.
(C) market regulation and antitrust laws.
(D) taxation and public expenditure.

297. An expansionary fiscal policy would be most appropriate for a government trying to:
(A) stimulate the economy during a recession.
(B) combat high inflation.
(C) reduce a trade deficit.
(D) decrease the national debt.

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298. Which of the following actions represents a contractionary fiscal policy?
(A) Increasing government spending on infrastructure.
(B) Increasing taxes on corporate profits.
(C) Decreasing income tax rates.
(D) Providing larger subsidies to industries.

299. Besides macroeconomic stabilization, what other objective of fiscal policy is mentioned in the passage?
(A) Maximizing foreign exchange reserves.
(B) Promoting long-term growth and redistributing income.
(C) Eliminating all forms of market failure.
(D) Ensuring a balanced budget in every fiscal year.

300. The effectiveness of fiscal policy can be limited by:
(A) time lags in implementation and the crowding out of private investment.
(B) the problem of adverse selection in insurance markets.
(C) the presence of public goods.
(D) the enforcement of non-progressive taxation systems.

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278. According to the passage, the concept of tax incidence deals with:
(A) the total revenue collected from a tax.
(B) the final distribution of the economic burden of a tax.
(C) the legal entity responsible for paying the tax to the government.
(D) the administrative costs of implementing a tax.

279. The economic incidence of a tax will fall more heavily on consumers (buyers) when:
(A) demand is more elastic than supply.
(B) demand and supply are equally elastic.
(C) demand is less elastic than supply.
(D) the tax is a direct tax on income.

280. A tax where the average tax rate falls as the taxpayer's income rises is defined as:
(A) a progressive tax.
(B) a proportional tax.
(C) an ad valorem tax.
(D) a regressive tax.

Direction : Please read the following source carefully.

Public expenditure refers to the spending incurred by the government to fulfill its collective responsibilities and achieve various socio-economic objectives. It is a vital component of fiscal policy and plays a crucial role in economic development, income redistribution, and macroeconomic stability. The scope of public expenditure has expanded significantly over time, moving beyond traditional functions like defense and law and order to encompass areas such as education, healthcare, infrastructure, and social security. Public expenditure can be classified in several ways. A common classification is between revenue expenditure and capital expenditure. Revenue expenditure is current or consumption spending that does not create any assets or reduce liabilities; examples include salaries, pensions, and interest payments. Capital expenditure, on the other hand, is spending that leads to the creation of physical or financial assets (e.g., building roads, schools, hospitals) or a reduction in liabilities. This type of spending enhances the productive capacity of the economy. Another classification is based on function, which categorizes spending by its purpose, such as expenditure on defense, education, or health. The effects of public expenditure are far-reaching, influencing aggregate demand, the pattern of production, and the distribution of income and wealth within a society.

Based on the above source, attempt the following five questions.

281. According to the passage, what is the primary distinction between revenue expenditure and capital expenditure?
(A) Revenue expenditure is for consumption, while capital expenditure creates assets.
(B) Revenue expenditure is funded by direct taxes, while capital expenditure is funded by indirect taxes.
(C) Revenue expenditure is for defense, while capital expenditure is for education.
(D) Revenue expenditure is incurred by the central government, while capital expenditure is by state governments.

282. Which of the following would be classified as capital expenditure?
(A) Payment of salaries to government employees.
(B) Construction of a new highway.
(C) Payment of interest on public debt.
(D) Subsidies provided to farmers.

283. The passage suggests that a key role of public expenditure is to:
(A) maximize the profits of public sector undertakings.
(B) influence aggregate demand and redistribute income.
(C) solely manage the level of public debt.
(D) decrease the overall size of the economy.

284. Classifying public expenditure by its purpose, such as spending on health or defense, is known as a:
(A) functional classification.
(B) economic classification.
(C) progressive classification.
(D) capital classification.

285. Which of the following is an example of revenue expenditure?
(A) Government investment in a public sector enterprise.

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Market regulation encompasses rules designed to modify the economic behavior of firms to achieve social goals. While regulation effectively addresses market failures like monopolies and negative externalities, it does not always guarantee an increase in consumer welfare. Regulatory capture or administrative inefficiencies can sometimes lead to outcomes that favor producers or create further market distortions, making the assertion that welfare always increases factually incorrect.

9. (B) a, c, and d

Regulation serves several vital functions in an economy, including internalizing externalities to align private and social costs. It also aims to control natural monopolies to prevent price exploitation, ensuring that essential services remain affordable. Consumer welfare, frequently measured by consumer surplus, is a central focus of these interventions. However, the primary goal of regulating collusion is to protect consumers and market efficiency.

10. (A) Asymmetric information between the insurer and the insured.

Adverse selection occurs in insurance markets when information asymmetry exists before a contract is finalized. If potential clients have better information about their own risk profiles than the insurance company, higher-risk individuals are more likely to seek coverage. This imbalance forces insurers to raise premiums, which may drive low-risk individuals out of the market entirely, potentially leading to market collapse or severe economic inefficiency.

11. (D) Profits from a Public Sector Undertaking (PSU).

Profits from public sector undertakings represent a significant source of non-tax revenue for the state. Unlike taxes, which are compulsory payments without a direct quid pro quo, these earnings arise from the government's commercial activities and services provided to the public. Such revenue streams help fund public expenditures and reduce the reliance on fiscal borrowing, contributing to the overall financial health of the national budget.

12. (A) Both A and R are true and R is the correct explanation of A.

Progressive taxation aligns with the ability-to-pay principle by ensuring that individuals with higher incomes contribute a larger proportion of their earnings. In this system, the average tax rate increases as the tax base grows. This approach aims to reduce income inequality by redistributing wealth more equitably. It is justified by the diminishing marginal utility of income, where higher earners experience less relative sacrifice.

13. (C) Tax impact.

Tax impact refers to the initial legal responsibility for paying a tax to the government authorities. It is the point where the tax is first imposed on a specific individual or entity. While the person who feels the impact is legally liable, they may not necessarily bear the ultimate economic burden. The final resting place of the tax, known as incidence, depends on shifting.

14. (D) An agreement among firms to limit competition.

Collusion occurs when firms in an industry cooperate instead of competing to influence market conditions. This behavior typically involves secret agreements to fix prices, limit production levels, or divide market territories among participants. By acting like a monopoly, colluding firms can increase their profits at the expense of consumers. Such practices are generally illegal and require strict regulatory oversight to maintain competitive and efficient.

15. (B) b and c

Public goods are defined by two key characteristics: non-rivalry and non-excludability. Non-rivalry means that the marginal cost of serving an additional consumer is zero, as one person's consumption does not reduce availability for others. Lighthouses are historical examples because they guide all ships without exclusion. Conversely, these goods are not efficiently provided by private markets due to the free-rider problem, and they lack rivalry.

16. (D) Statement I is incorrect but Statement II is correct.

The incidence of a tax identifies the person or group that ultimately bears the economic burden of the payment. While Statement II accurately defines this concept, Statement I is incorrect

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ANSWERS

1. (B) A good that is non-rivalrous and non-excludable in consumption.
   Public goods possess two fundamental characteristics that distinguish them from private goods. Non-rivalry implies that one individual's consumption does not reduce the quantity available for others. Non-excludability means that it is technically impossible or prohibitively expensive to prevent individuals from using the good once it is provided. These traits lead to market failure, necessitating government intervention for efficient provision and ensuring availability for all society members.

2. (A) One party's actions being unobservable after a transaction.
   Moral hazard represents a situation where one party to a contract changes their behavior in a way that is detrimental to the other party after the agreement is signed. This occurs because the behavior is difficult or impossible for the second party to monitor or observe directly. This asymmetric information creates inefficiencies in markets, particularly in insurance and labor, where monitoring costs are significant and behavioral changes.

3. (A) Both A and R are true and R is the correct explanation of A.
   The free-rider problem arises inherently from the non-excludable nature of public goods. Because individuals cannot be excluded from consuming these goods regardless of whether they pay, there is a strong incentive for individuals to avoid contribution while still enjoying the benefits. This individual behavior collectively leads to under-provision or zero provision in a free market, making it a central characteristic requiring government intervention and funding.

4. (C) Statement I is correct but Statement II is incorrect.
   Market failure describes instances where the free market mechanism results in an inefficient distribution of resources, preventing the maximization of total social welfare. While government failure involves inefficiencies caused by state intervention, monopolies are classic examples of market failure. Monopolies distort prices and reduce output compared to competitive levels, leading to deadweight loss and misallocation within the economy rather than resulting from government shortcomings.

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5. (C) The social cost of an activity is greater than the private cost.
   A negative externality exists when the production or consumption of a product imposes unintended costs on third parties who are not involved in the transaction. In such cases, the total social cost, which includes both the internal private costs and the external costs to society, exceeds the private cost. This discrepancy leads to overproduction and market inefficiency as the market price fails to reflect.

6. (A) P-3, Q-2, R-1, S-4
   The used car market suffers from asymmetric information, where sellers know more than buyers. National defence is a classic public good, being non-rivalrous and non-excludable. Pollution from factories creates negative externalities by imposing costs on bystanders. Vaccinations generate positive externalities by reducing the spread of disease to others. These examples illustrate various market failures where private interactions do not lead to socially optimal economic outcomes.

7. (D) Imposing a Pigouvian tax on the polluting activity.
   A Pigouvian tax is a corrective measure designed to internalize the external costs of a negative externality, such as environmental pollution. By taxing the polluting activity, the government increases the private cost to the firm, aligning it with the total social cost. This adjustment encourages firms to reduce harmful output to a socially optimal level, thereby correcting market inefficiencies and promoting better environmental outcomes.

8. (A) Regulation always leads to an increase in consumer welfare.

The budget multiplier concept illustrates the total change in national income resulting from modifications in government spending and tax levels. It accounts for the repeated cycles of spending that occur as income flows through the economy. By analyzing this multiplier, policy makers can estimate how much a specific fiscal stimulus or contraction will ultimately impact the gross domestic product, helping them design more effective economic.

26. (A) Allowing firms to collude to set market prices.
Remedial measures for market failure involve government actions to correct inefficiencies, such as providing public goods, taxing negative externalities, and regulating monopolies. However, allowing firms to collude is not a remedy; instead, it creates market failure by reducing competition and harming consumer welfare. Collusion leads to higher prices and lower output levels, necessitating regulatory intervention through antitrust laws to restore competitive behavior and.

27. (D) The principal-agent problem.
The principal-agent problem occurs when one party, the agent, performs tasks on behalf of another party, the principal. This situation leads to market failure because the agent's actions are often unobservable or difficult for the principal to monitor. If the agent's interests differ from those of the principal, they may behave in ways that are personally beneficial but detrimental to the principal's overall economic.

28. (B) Progressive tax.
A progressive tax is specifically characterized by an increasing average tax rate as income rises. In contrast, non-progressive systems include proportional taxes, where the rate is constant, and regressive taxes, where the rate falls as income increases. Lump-sum taxes are also non-progressive as they charge a fixed amount regardless of earnings. Therefore, the progressive tax stands alone as the system designed to increase.

29. (A) a and d
Public debt management involves strategic decisions regarding the issuance, servicing, and retirement of government liabilities. Internal debt is specifically owed to domestic citizens and institutions, unlike external debt which carries exchange rate risks. While public debt is not always a burden if used for productive investments, careful management is essential for fiscal health. Repudiation is an extreme and rare measure, not a recommended standard.

30. (D) Tax incidence.
Tax incidence refers to the final economic burden of a tax after all shifting has taken place. While the legal responsibility to pay a tax may fall on one person, they might shift that burden to others through changes in prices. The incidence identifies who actually suffers a reduction in disposable income. Determining this is vital for understanding the true distributive effects of any taxation.

31. (A) An increase in aggregate demand.
An increase in government spending is a standard tool of expansionary fiscal policy designed to boost aggregate demand. By injecting more money into the economy, the government directly increases total spending on goods and services. This action can lead to higher production levels, increased employment, and overall economic growth. It is particularly used during recessions when private demand is weak and requires an external.

32. (A) Both A and R are true and R is the correct explanation of A.
Collusion among firms in a market results in reduced competition, leading to higher prices and lower output levels than what would exist in a competitive environment. This behavior shrinks consumer surplus and generates a deadweight loss to society. Consequently, government regulation is necessary to dismantle such anti-competitive agreements. By restoring competition, regulators protect consumer welfare and ensure that resources are allocated more efficiently.

33. (B) The consequences of taxes on economic variables like work, saving, and investment.
The effects of taxation encompass the broader economic consequences that taxes have on individual behavior and market outcomes. This study examines how different taxes influence decisions regarding labor supply, personal savings, and business investments. Taxes can

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create incentives or disincentives that alter the allocation of resources and the overall productivity of the economy. Understanding these effects is crucial for designing tax systems that minimize.

34. (A) Estimated revenues and proposed expenditures for a future period.
A public budget serves as a formal financial statement detailing the government's estimated revenues and planned expenditures for an upcoming fiscal period. It acts as a primary tool for economic policy, outlining how the state intends to allocate resources to various sectors. By presenting this plan, the government communicates its priorities regarding social welfare, infrastructure, and defense, while also indicating its fiscal stance.

35. (C) Public goods.
The free-rider problem is a significant obstacle that prevents private markets from providing public goods efficiently. Because these goods are non-excludable, individuals can enjoy the benefits without paying for them. This behavior leads to a situation where no individual has a sufficient incentive to fund the good privately. As a result, the market will under-provide or entirely fail to provide the good without government.

36. (A) Both Statement I and Statement II are correct.
Direct taxes and indirect taxes are distinguished by who ultimately bears the financial burden. In a direct tax system, the individual or entity legally responsible for the payment also bears the final economic incidence. Conversely, indirect taxes allow for the shifting of the tax burden from the initial payer to another party, typically the final consumer. Both statements correctly describe these fundamental principles of tax.

37. (C) Contractionary fiscal policy.
Concretionary fiscal policy involves government actions aimed at reducing the level of aggregate demand to slow down economic growth or combat inflation. This is achieved by increasing tax rates, which reduces disposable income, and decreasing government spending. Such measures help to narrow the budget deficit or create a surplus. This policy is typically implemented when the economy is overheating and price stability becomes a.

38. (B) It has no effect on the overall level of employment.
Public expenditure is a powerful tool of fiscal policy that significantly impacts the overall level of employment and economic activity. By spending on infrastructure, education, and healthcare, the government can stimulate demand and create jobs directly and indirectly. It also influences resource allocation and helps reduce income inequality through social programs. The claim that public spending has no effect on employment levels is factually.

39. (C) a, c, and d
Externalities occur when the actions of producers or consumers impose unintended costs or benefits on others. Education provides positive externalities by creating a more skilled and informed society. Conversely, pollution is a classic negative externality. In markets with negative externalities, firms do not pay for the damage they cause, leading them to produce more than the socially optimal level. These concepts are fundamental to understanding.

40. (A) Fiscal Deficit.
The fiscal deficit measures the total gap between the government's total expenditure and its total receipts, excluding any money borrowed during the period. It is a comprehensive indicator of the government's overall borrowing requirements for the fiscal year. A large fiscal deficit suggests that the government is spending significantly more than it earns from taxes and other sources, leading to an accumulation of national.

41. (C) A decrease in consumer surplus and an increase in producer surplus.
When firms collude, they act together to restrict output and raise market prices, effectively mimicking a monopoly. This behavior leads to an increase in producer surplus as firms capture more profit from each unit sold. However, these higher prices significantly reduce consumer surplus, as buyers must pay more for less. The overall effect is a transfer of wealth from consumers to producers and a.

42. (A) Public debt management.

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Public debt management involves the strategic oversight of a government's total liabilities to minimize costs and manage risks. This process includes deciding on the maturity of debt instruments, the mix of internal and external borrowing, and the timing of repayments. Effective management ensures that the government can meet its financing needs while maintaining macroeconomic stability and avoiding potential crises caused by excessive or poorly structured.

43. (A) 3, 1, 2, 4
The analysis of public finance often follows a logical sequence starting with the observation of a negative externality, such as pollution. This observation helps in the identification of market failure, where the free market fails to reach an efficient outcome. Once the failure is identified, the government may implement a corrective tax through fiscal policy. Finally, economists analyze the tax incidence and its overall.

44. (B) The tax may be proportional or regressive.
A non-progressive tax system is one where the average tax rate does not increase as the taxpayer's income rises. This category includes proportional taxes, where everyone pays the same percentage, and regressive taxes, where lower-income individuals pay a higher relative share. Unlike progressive systems that prioritize the ability-to-pay principle, non-progressive taxes may focus on simplicity or the benefit principle, often resulting in a heavier burden.

45. (C) One.
The balanced budget multiplier describes the impact on national income when the government increases both spending and taxes by the same amount. Theoretically, its value is equal to one. This occurs because the positive effect of increased government spending on aggregate demand is slightly larger than the negative effect of the equal tax increase. Consequently, national income increases by exactly the same amount as the initial.

46. (A) Both A and R are true and R is the correct explanation of A.
Asymmetric information occurs when one party in a transaction possesses superior information compared to the other party. This imbalance can prevent markets from functioning efficiently, leading to outcomes like adverse selection before a contract is signed or moral hazard afterward. Because these issues result in the misallocation of resources or market collapse, asymmetric information is a recognized cause of market failure that often requires.

47. (A) One person's consumption of the good does not reduce its availability to others.
A good is considered non-rivalrous when one person's consumption of that good does not diminish the amount available for others to consume. This characteristic is a defining feature of public goods, such as national defense or radio broadcasts. Because the marginal cost of providing the good to an additional user is zero, the market cannot easily set a price that reflects the cost of consumption.

48. (C) P-3, Q-1, R-2, S-4
Fiscal terms are defined by specific mathematical relationships within the public budget. The fiscal deficit represents total expenditure minus total receipts, excluding borrowings. The revenue deficit is the excess of revenue expenditure over revenue receipts. The primary deficit is calculated by subtracting interest payments from the fiscal deficit. Finally, the budget deficit is the difference between total expenditure and total receipts, including all sources of.

49. (B) Increasing government expenditure on infrastructure projects.
During a recession, the government can use expansionary fiscal policy to stimulate economic activity. Increasing expenditure on infrastructure projects, such as building roads or bridges, directly injects money into the economy and creates jobs. This spending boosts aggregate demand, which helps to counteract the downturn. Unlike monetary policy actions like adjusting interest rates, this direct fiscal intervention provides a more immediate boost to national.

50. (A) The final economic burden of a tax.
The incidence of taxation refers to the final resting place of a tax burden, identifying who ultimately pays the tax in economic terms. While the legal impact might fall on a business, the firm may shift the cost to consumers through

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The 'market for lemons' model describes a situation of adverse selection caused by asymmetric information. In this scenario, sellers of used cars have more information about the quality of their vehicles than potential buyers. Because buyers cannot distinguish between high-quality and low-quality cars, they offer a lower average price. This leads sellers of high-quality cars to exit the market, leaving only low-quality goods.

69. (C) Low inflation and high unemployment.
Expansionary fiscal policy is most appropriate when an economy is experiencing low inflation and high unemployment, often during a recession. By increasing government spending or reducing taxes, the government boosts aggregate demand, which encourages production and creates jobs. This policy helps to close the recessionary gap and move the economy toward full employment. It is a vital tool for stimulating growth when private.

70. (B) P-3, Q-4, R-1, S-2
Governments use specific policy tools to address different types of market failure. A Pigouvian tax is designed to correct negative externalities like pollution. Antitrust laws are used to prevent collusion and monopolies from harming competition. Public provision is necessary for public goods like national defense, which private markets fail to supply. Subsidies are effectively used to promote goods with positive externalities, such as.

71. (D) Taxation.
The announcement effect refers to the changes in economic behavior that occur when a new tax is proposed or announced, even before it is officially implemented. Individuals and businesses may alter their consumption, investment, or labor supply in anticipation of the future tax burden. This effect is a significant consideration in the study of taxation as it can impact the overall effectiveness and revenue.

72. (A) Spending injections exceed initial consumption leakages caused by equal taxes.
The balanced budget multiplier equals one because the positive impact of government spending on national income is stronger than the negative impact of an equal tax increase. While spending directly boosts aggregate demand, a tax increase only reduces demand by the portion of income that would have been spent. Since people save part of their income, the reduction in consumption is less than the total.

73. (C) External debt.
External debt refers to the portion of a country's total public debt that is borrowed from foreign creditors, including foreign governments, international organizations like the IMF, or private individuals abroad. Managing this debt involves additional complexities, such as foreign exchange risk, as the debt often must be repaid in a foreign currency. It represents a transfer of resources from the domestic economy.

74. (C) Statement I is correct but Statement II is incorrect.
Contractionary fiscal policy is designed to reduce aggregate demand to combat inflation and slow down an overheating economy. This is achieved by decreasing government spending or increasing tax rates. While Statement I correctly notes that this can slow economic growth in the short term, Statement II is incorrect because the primary goal is to decrease, not increase, the level of total demand in.

75. (A) 3, 4, 1, 2
The hierarchy of public finance concepts moves from the broad category of public revenue, which includes all government income, to tax revenue as a major subset. Within tax revenue, direct taxes represent a specific category where the burden cannot be shifted. Finally, progressive taxation is a particular method or structure used to determine the rates at which those direct taxes are levied based.

76. (B) A decrease in the consumer surplus area.
Consumer welfare is commonly measured by consumer surplus, which represents the difference between what consumers are willing to pay and what they actually pay. Both the imposition of a tax and the practice of collusion among firms typically lead to higher market prices. Graphically, this price increase results in a visible decrease in the area of consumer surplus on a demand and supply.

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often referred to as the labor supply response. High tax rates may create a disincentive for individuals to exert extra effort or work longer hours, impacting overall economic productivity.

60. (B) It is generally higher in competitive markets than in monopolistic markets.
Consumer welfare is generally higher in competitive markets compared to monopolistic ones because competition drives prices down toward the cost of production. In a competitive environment, firms must innovate and offer better quality to attract buyers, leading to higher consumer surplus. In contrast, monopolies and colluding firms restrict output to raise prices, which significantly reduces the well-being of consumers and creates overall economic.

61. (C) b, c, and d
Governments utilize various remedial measures to address market failures. Subsidies are effective for encouraging activities that generate positive externalities, such as education or vaccinations. Direct provision by the state solves the public good problem, where private firms lack the incentive to provide non-excludable services. Additionally, antitrust laws are essential for controlling monopoly power and preventing collusion. Pigouvian taxes, however, are specifically used for negative.

62. (D) Corporation tax.
Non-tax revenue refers to all government income that does not come from compulsory tax levies. This includes administrative income like fines and penalties, interest received on government loans, and dividends or profits earned from public sector enterprises. Corporation tax, on the other hand, is a direct tax levied on the profits of companies and is therefore categorized as a major component of tax revenue.

63. (A) The ability to shift the burden of the tax.
The fundamental distinction between direct and indirect taxes lies in the ability to shift the tax burden. A direct tax is one where the person who is legally responsible for paying the tax also bears the final economic incidence. In contrast, the burden of an indirect tax can be shifted from the initial payer, such as a producer or retailer, to the final.

64. (A) Both A and R are true and R is the correct explanation of A.
Public expenditure serves as a central instrument of fiscal policy because it allows the government to directly influence the level of economic activity. By increasing or decreasing its spending on goods, services, and infrastructure, the state can manage aggregate demand. This capability is crucial for addressing economic issues such as unemployment during a recession or controlling inflationary pressures by reducing spending when the economy.

65. (B) The total process of borrowing, servicing, and repaying government debt.
Public debt management is a comprehensive process that covers the entire lifecycle of government borrowing. It involves strategic decisions about when and how much to borrow, managing the ongoing interest payments and administrative costs known as servicing, and planning for the final repayment or retirement of the debt. Effective management aims to ensure fiscal sustainability while minimizing the long-term financial burden on the national.

66. (A) It is physically impossible or very costly to prevent non-payers from consuming it.
Non-excludability is a key characteristic of public goods, meaning that it is either impossible or extremely expensive to prevent people from using the good once it has been provided. This holds true regardless of whether they have paid for it. This trait makes it difficult for private firms to charge for such goods, leading to the free-rider problem and necessitating government provision through.

67. (C) Fiscal Policy - Managed by the Central Bank
Fiscal policy involves the use of government spending and taxation to influence the economy and is managed by the finance ministry or the executive branch. In contrast, the central bank is responsible for monetary policy, which involves managing interest rates and the money supply. Other pairs correctly identify progressive taxes, external debt from international institutions, and non-tax revenues like fees for government-provided services.

68. (D) Adverse selection.

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The 'market for lemons' is a classic economic model that illustrates how asymmetric information can lead to market failure. In this scenario, sellers have more information about product quality than buyers. Because buyers cannot distinguish between high and low-quality goods, they are only willing to pay an average price. This drives high-quality products out of the market, potentially leading to its total.

104. (C) a and d

Public goods are defined by two essential characteristics that distinguish them from private goods. First, they are non-excludable, meaning it is impossible or very difficult to prevent anyone from using them once they are provided. Second, they are non-rivalrous, meaning that one person's consumption does not reduce the amount available for others. These traits lead to the free-rider problem and necessitate government provision.

105. (C) A balanced budget.

A balanced budget occurs when the government's total planned expenditure for a fiscal period exactly equals its total estimated revenue from taxes and other sources. In this situation, the government does not need to borrow to cover its spending, nor does it have a surplus to reduce existing debt. Achieving a balanced budget is often seen as a sign of fiscal discipline.

106. (A) A proportional tax.

A proportional tax, often referred to as a flat tax, is a system where everyone pays the same percentage of their income as tax, regardless of their total earnings. Unlike a progressive tax, where the rate increases with income, or a regressive tax, where the rate falls, the average tax rate remains constant. This system is praised for its simplicity but.

107. (D) Altering the money supply.

Fiscal policy involves the government's use of spending and taxation to influence macroeconomic variables such as aggregate demand, income distribution, and investment levels. However, altering the money supply is the primary responsibility of monetary policy, which is managed by the central bank. While fiscal actions can indirectly affect liquidity, the direct control of money circulation and interest rates is not a primary.

108. (B) Tax revenue is compulsory payment while non-tax revenue is not.

The fundamental distinction between tax and non-tax revenue lies in the element of compulsion. Taxes are compulsory payments made to the government without any direct or specific benefit in return. In contrast, non-tax revenue arises from sources where the payment is often linked to a specific service or action, such as fees, fines, or interest, and is generally not considered a.

109. (C) The country's own citizens, banks, and financial institutions.

Internal debt represents the portion of a country's public debt that is borrowed from its own citizens, domestic banks, and other local financial institutions. Because this debt is denominated in the domestic currency and involves transfers within the same economy, it does not carry foreign exchange risk. Managing internal debt is a core part of fiscal policy and influences domestic interest.

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110. (D) Several airlines secretly agree not to lower ticket prices on a particular route.

Collusion occurs when several firms in an industry secretly agree to coordinate their actions rather than competing. A common example is when airlines agree not to lower ticket prices on specific routes, effectively fixing prices to ensure higher profits for all participants. Such agreements harm consumers by eliminating price competition and are generally illegal under antitrust laws designed to protect market efficiency.

111. (C) Statement I is correct but Statement II is incorrect.

The Coase Theorem suggests that private bargaining can solve the problem of externalities if property rights are well-defined. However, Statement II is incorrect because the theorem's effectiveness depends on the assumption of low or zero transaction costs. When transaction costs are very high, the parties involved may be unable to reach a mutually beneficial agreement, making a private solution impossible and.

77. (C) To provide services that the private market fails to provide efficiently or equitably.
The primary goal of public expenditure is to provide essential services and goods that the private market cannot provide efficiently or equitably. This includes funding public goods like national defense, infrastructure, and social programs that promote general welfare. By intervening in areas of market failure, the government aims to ensure a more efficient allocation of resources and a more equitable distribution.

78. (D) Entirely on the consumer.
When the demand for a good is perfectly inelastic, consumers will purchase the same quantity regardless of the price. If a tax is imposed on such a good, producers can pass the entire burden to consumers through higher prices without losing any sales. In this scenario, the incidence of the tax falls entirely on the consumer, as they have no alternative but to.

79. (A) a, b, and d
Effective public debt management involves several key strategies to ensure fiscal sustainability. A sinking fund helps accumulate money for future repayments, while debt conversion can lower interest costs by replacing old debt. The overarching goal is to fulfill the government's financing requirements at the minimum possible cost over the long term. Unlike repudiation, which is high-risk and avoided, these are standard and responsible.

80. (B) Revenue deficit.
A revenue deficit occurs when the government's revenue expenditure, which includes routine costs like salaries and interest payments, exceeds its revenue receipts from taxes and other non-tax sources. This situation indicates that the government is not earning enough to cover its day-to-day operational expenses and may need to borrow to fund consumption. It is a critical indicator of the sustainability of a.

81. (B) A high corporate tax rate may discourage firms from undertaking new projects.
The effects of taxation include the impact on investment decisions made by firms and individuals. For example, a high corporate tax rate reduces the after-tax profitability of business ventures. This reduction in potential returns can discourage companies from undertaking new projects or expanding their operations. Such behavioral changes illustrate how tax policy can influence the overall level of investment and economic growth.

82. (A) Both A and R are true and R is the correct explanation of A.
National defense is the classic example of a public good because it is non-rivalrous and non-excludable. One person's protection does not reduce the safety of others, and it is impossible to exclude any citizen from the benefit. Because of the free-rider problem, private firms cannot profitably provide defense, making it a necessary responsibility of the government to ensure the security of.

83. (C) Tacit collusion.
Tacit collusion occurs when firms in an oligopolistic market reach an informal understanding to coordinate their actions without a formal or explicit agreement. By following each other's price changes or limiting production levels, these firms can maintain higher prices and avoid intense competition. Although there is no written contract, the outcome is similar to a cartel, resulting in reduced consumer welfare and.

84. (D) $\frac{1}{1 - MPC}$
The government expenditure multiplier measures the total change in national income resulting from a change in government spending. The formula for this multiplier is 1 divided by 1 minus the marginal propensity to consume. This value indicates how many times a single dollar of government spending will circulate through the economy, creating additional income at each stage as people spend a portion of.

85. (C) Customs Duty.
Direct taxes are those levied directly on the income or wealth of individuals and corporations, where the burden cannot be shifted to others. Examples include personal income tax, wealth tax, and corporate income tax. In contrast, customs duty is an indirect tax imposed on goods imported into or exported

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from a country. The burden of customs duty is typically shifted to the final.

86. (B) The characteristics of non-rivalry and non-excludability.
Market failure in the case of public goods is primarily caused by their unique characteristics of non-rivalry and non-excludability. Non-rivalry means that the cost of providing the good to an additional person is zero, while non-excludability prevents firms from charging users. Together, these traits lead to the free-rider problem, where individuals consume the good without paying, resulting in the private market.

87. (D) There is no burden associated with public debt.
Public debt carries various burdens that affect the economy both directly and indirectly. Internal debt involves a transfer of resources within the country, while external debt involves a real transfer of resources to foreign creditors. This burden includes the money paid in interest and the potential reduction in future consumption or investment. The claim that there is no burden associated with public.

88. (A) Increased government borrowing drives up interest rates, making private investment more expensive.
The crowding-out effect occurs when increased government borrowing to finance its spending leads to higher interest rates in the economy. As the government competes for limited loanable funds, the cost of borrowing rises for the private sector. This makes it more expensive for firms to finance new projects, thereby reducing private investment. This phenomenon is a key implication of fiscal policy that.

89. (C) a, c, and d
Non-tax revenue includes all government income that is not derived from compulsory tax levies. Passport fees and traffic fines are administrative sources of revenue, while the profits earned from state-owned enterprises like national railways are commercial sources. Income tax, however, is a direct tax on personal earnings. Therefore, fees, fines, and enterprise profits are clear examples of non-tax revenue that help fund government.

90. (A) The level of satisfaction consumers get from the consumption of goods and services.
Consumer welfare in economic theory refers to the overall level of satisfaction or utility that individuals derive from the consumption of various goods and services. It is often quantified through the concept of consumer surplus, which is the difference between what a consumer is willing to pay and the actual market price. Factors like lower prices, better quality, and increased choice generally enhance.

91. (D) The presence of saving and taxes.
The budget multiplier effect is the total increase in national income generated by an initial change in government spending. This effect is diminished by leakages from the spending cycle, primarily in the form of saving and taxes. When individuals receive more income, they do not spend all of it; instead, a portion is saved or paid to the government, reducing the amount available.

92. (A) P-4, Q-3, R-1, S-2
Market failures are illustrated by various real-world scenarios. Adverse selection is seen when high-risk individuals are more likely to buy health insurance. Moral hazard occurs when insured drivers behave more recklessly. Pollution from a steel mill is a classic negative externality affecting third parties. Finally, a lighthouse provides a public good that is non-rivalrous and non-excludable. Matching these concepts helps identify the specific.

93. (C) Tax shifting.
Tax shifting is the economic process where the person or entity legally responsible for paying a tax transfers the burden to someone else. This is typically achieved through changes in prices. For example, a producer may include the cost of an excise tax in the price of the product sold to consumers. Shifting can move forward toward consumers or backward toward suppliers or.

94. (D) Accelerating the rate of economic growth and development.
In developing countries, fiscal policy is a crucial instrument for accelerating the overall rate of economic growth and development. The government uses taxation and public expenditure to mobilize resources, fund essential

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infrastructure, and promote investment in key sectors. Additionally, fiscal policy aims to reduce poverty, improve social services, and achieve economic stability, playing a far more proactive role than in more developed.

95. (A) The redemption of public debt.
A sinking fund is a specific financial mechanism used by governments for the orderly redemption of public debt. By setting aside a portion of revenue each year into a separate fund, the government ensures that it will have enough money to pay off the principal amount when the debt matures. This method enhances investor confidence and helps in managing the long-term burden of.

96. (D) Statement I is incorrect but Statement II is correct.
Public expenditure can be classified into developmental and non-developmental categories. Developmental expenditure aims to increase the productive capacity of the economy through investments in infrastructure, health, and education. Non-developmental expenditure includes necessary but less productive costs like defense, administration, and interest payments on past debt. While Statement II correctly identifies these examples, Statement I is incorrect because not all government spending.

97. (B) The actions of one individual or firm affect the well-being of a third party not involved in the transaction.
An externality arises when the production or consumption decisions of an individual or firm result in costs or benefits that affect others who are not involved in the transaction. Because these third-party effects are not reflected in the market price, the market fails to achieve an efficient outcome. This situation necessitates government intervention, such as taxes or subsidies, to align private.

98. (A) 4, 1, 3, 2
The passage of a public budget follows a strict chronological sequence within the government. First, the finance ministry prepares the budget estimates. Second, the budget is presented in the legislature for public review. Third, the legislature debates the proposals and votes on the grants. Finally, once approved, the various government departments execute the budget by spending the allocated funds throughout the fiscal.

99. (C) A negative externality.
A negative externality occurs when the social costs associated with an economic activity are higher than the private costs borne by the producer. This often happens in cases like industrial pollution, where the factory pays for its inputs but not for the environmental damage it causes. Because the market price does not account for these external costs, the activity is overproduced, leading to.

100. (D) Allowing the formation of private cartels.
Remedial measures for market failure are designed to correct inefficiencies and improve social welfare. These include government provision of public goods, imposing Pigouvian taxes to internalize externalities, and using regulations to control monopoly power. However, allowing the formation of private cartels is not a remedy; it is a source of market failure that reduces competition and harms consumers, requiring intervention to prevent.

101. (C) It can be a tool for income redistribution.
Public expenditure is a versatile tool used by governments to achieve various economic and social goals. One of its key functions is the redistribution of income, which is achieved through social welfare programs, subsidies for the poor, and public provision of essential services like healthcare and education. By directing funds to specific groups, the government can reduce income inequality and promote a more.

102. (A) Both A and R are true and R is the correct explanation of A.
A revenue deficit occurs when a government's routine spending exceeds its routine income from taxes and other revenue sources. This is a significant cause for concern because it implies that the government is borrowing money not for investment or asset creation, but simply to fund its day-to-day consumption. This behavior can lead to a debt trap and hampers the long-term financial.

103. (D) Asymmetric information.

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121. (B) a, d, and e

Fiscal policy is a vital economic tool that involves the use of government spending and taxation to influence the economy. It can be used to manage aggregate demand and alter the pattern of resource allocation. However, potential negative implications include the crowding-out effect, where government borrowing raises interest rates and reduces private investment. It is managed by the government, not the.

122. (A) Preventing the abuse of market power and protecting consumers.

A natural monopoly occurs when a single firm can provide a service to the entire market at a lower cost than multiple firms could. In such cases, government regulation is necessary to prevent the firm from using its market power to charge excessive prices or provide poor quality. The primary goal is to protect consumers and ensure that essential services remain affordable.

123. (D) The final resting place of the tax burden.

The incidence of a tax refers to its final resting place in economic terms, identifying who ultimately bears the burden of the payment. Although a law might require a seller to pay a tax, the seller might pass that cost to the buyer by raising the price. In this case, the buyer bears the economic incidence, as their real income is reduced.

124. (A) Both A and R are true and R is the correct explanation of A.

A positive externality exists when an activity, such as research and development, provides benefits to others that the producer cannot capture as revenue. Because the private benefit is less than the social benefit, the firm has no financial incentive to produce the socially optimal amount. This leads to underproduction in a free market, justifying government support through subsidies or direct funding.

125. (C) Fiscal deficit minus Interest Payments.

The primary deficit is a key indicator of the government's fiscal health, calculated by subtracting interest payments on past debt from the current fiscal deficit. It shows the extent to which the government's current expenditures, excluding interest, exceed its current revenues. A low or zero primary deficit suggests that the government is covering its current expenses without needing to borrow more, apart.

126. (D) Private investment expenditure.

Public expenditure encompasses all spending by government authorities to provide services, build infrastructure, and offer subsidies. This include defense spending, social programs, and the construction of roads. However, private investment expenditure is carried out by individuals and businesses for their own benefit and profit. While government policies can influence private spending, it is not a part of the government's own public.

127. (A) Increase taxes and decrease government spending.

To combat inflation, the government can implement a contractionary fiscal policy. This involves increasing taxes, which reduces consumers' disposable income and spending, and decreasing government expenditure. Both actions work together to reduce the overall level of aggregate demand in the economy. By cooling down the economy, these measures help to stabilize prices and prevent the harmful effects of persistent and high inflation.

128. (B) Compulsion.

The core difference between tax revenue and non-tax revenue is the element of compulsion. Taxes are mandatory payments that individuals and businesses must make to the government by law, regardless of whether they receive a specific service. Non-tax revenue, such as fees or interest, is often linked to the use of a government service or a specific transaction, and is generally not.

129. (B) Government intervention.

Public goods possess unique characteristics of non-rivalry and non-excludability, which lead to the free-rider problem in private markets. Because private firms cannot easily charge users or prevent non-payers from consuming these goods, they will be under-provided or not provided at all. This market failure provides a strong economic rationale for government intervention to ensure that essential services like defense and infrastructure.

130. (A) 1, 4, 3, 2

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112. (B) An increase in interest rates and crowding out of private investment.
When the government finances its budget deficit by borrowing from the public, it increases the demand for loanable funds. This increased demand can drive up interest rates, making it more expensive for private individuals and businesses to borrow for investment. This phenomenon, known as the crowding-out effect, can lead to a reduction in private spending and may hamper long-term economic.

113. (A) P-3, Q-4, R-1, S-2
Fiscal policy actions are classified based on their impact on aggregate demand. Expansionary policies, such as increasing public expenditure or decreasing taxes, are designed to stimulate economic activity. In contrast, contractionary policies, including decreasing public expenditure or increasing taxes, aim to slow down the economy and control inflation. Correctly matching these actions with their policy types is essential for understanding how governments manage.

114. (A) Greater than one.
In a progressive tax system, the tax rate increases as the taxpayer's income rises. This structure implies that the growth in tax revenue will be proportionately greater than the growth in income. Therefore, the elasticity of tax revenue with respect to income is greater than one. This elasticity makes progressive taxes a powerful tool for automatic stabilization, as revenue increases rapidly during economic.

115. (C) Public goods.
The free-rider problem is a classic market failure associated with public goods. Because public goods are non-excludable, individuals can enjoy their benefits without contributing to their cost. This creates a situation where everyone has an incentive to let others pay, leading to a total lack of private provision. Consequently, the government must step in to provide these essential services through compulsory.

116. (D) They are positively related.
The budget multiplier measures the total change in national income resulting from an initial change in government spending. This multiplier is positively related to the marginal propensity to consume. When the propensity to consume is higher, people spend a larger portion of their additional income, leading to more rounds of spending and a greater final impact on national income. Understanding this relationship helps.

117. (C) The equity or fairness of taxation.
The equity or fairness of taxation is a primary concern when analyzing how the tax burden is distributed across different income groups. This area of study focuses on whether the tax system promotes social justice and reduces income inequality. Principles like vertical and horizontal equity are used to evaluate whether the distribution of the tax burden is appropriate given the relative economic.

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118. (B) Debt monetization by private firms.
Standard methods for managing public debt include the creation of a sinking fund, debt conversion, and, in extreme cases, debt repudiation. These are actions taken by the government to handle its liabilities. Debt monetization by private firms is not a recognized method of public debt management. While a central bank might monetize debt, private firms do not have the authority or.

119. (D) Align the private benefit with the social benefit.
Goods with positive externalities, like education or healthcare, provide benefits to society that are not fully reflected in the private market price. By providing a subsidy, the government reduces the cost of consumption for individuals, thereby increasing demand. This intervention aims to align the private benefit with the total social benefit, encouraging a level of consumption that is closer to the.

120. (A) The burden of an indirect tax is always borne entirely by the final consumer.
Direct taxes are generally progressive and cannot be shifted, whereas indirect taxes are levied on goods and services and can be shifted. However, the claim that the burden of an indirect tax is always borne entirely by the consumer is incorrect. The actual division of the tax burden between producers and consumers depends on the relative price elasticities of demand and supply.

higher prices. Therefore, the person who bears the incidence is the one whose real disposable income is reduced by the tax after all.

51. (C) a, b, c, and d
Valid methods for managing public debt include various strategies to ensure the government can meet its obligations. Creating a sinking fund involves setting aside revenue for future repayment, while debt conversion replaces old loans with new ones at different rates. A capital levy is a one-time tax on wealth used for debt reduction. Repudiation, though extreme and rare, is a recognized though generally avoided method.

52. (D) Before the contract is signed.
Adverse selection is a problem associated with asymmetric information that arises before a contract is finalized. It occurs when individuals with higher risks are more likely to participate in a market, such as insurance, because they have private information that the other party lacks. This leads to an inefficient market where prices are high and low-risk individuals are driven out, representing a significant market.

53. (C) The monetary policy statement of the central bank.
A public budget is a comprehensive document that outlines the government's planned revenue and expenditure for the coming year, along with strategies for deficit financing. However, it does not include the monetary policy statement of the central bank. While fiscal and monetary policies are often coordinated to achieve economic goals, monetary policy is managed independently by the central bank and focuses on interest rates and.

54. (B) Restore competition and protect consumer interests.
Market regulation in industries where collusion occurs is primarily designed to restore competitive behavior and protect the interests of consumers. When firms secretly agree to fix prices or limit output, they harm the economy by creating inefficiencies and reducing consumer surplus. Anti-collusion laws aim to prevent such practices, ensuring that markets remain competitive, prices stay fair, and resources are allocated in a socially.

55. (D) An accumulation of public debt.
A large and persistent fiscal deficit indicates that the government is consistently spending more than it collects in revenue. To cover this gap, the state must borrow continuously from domestic or international sources. Over time, these repeated borrowings lead to an accumulation of public debt. This growing debt burden requires significant interest payments, which can further strain future budgets and potentially lead to.

56. (A) Proportional taxation.
Proportional taxation is a system where the tax rate remains constant across all levels of income. Under this flat-rate system, every taxpayer pays the same percentage of their earnings as tax, regardless of whether they earn a high or low income. While it is simple to administer, it does not account for the ability-to-pay principle as effectively as a progressive tax system does in.

57. (C) Statement I is correct but Statement II is incorrect.
Public expenditure on education is widely recognized as a productive investment in human capital, which enhances the long-term productive capacity of the economy. While some spending might be less efficient, the claim that all public expenditure is unproductive is incorrect. Much of government spending provides essential public goods and services that the private sector cannot provide efficiently, thereby supporting overall economic development and.

58. (A) The marginal propensity to consume (MPC) is larger.
The budget multiplier effect is amplified when the marginal propensity to consume is larger. This is because a higher propensity to consume means that a greater portion of each additional dollar of income is spent rather than saved. This increased spending leads to further rounds of income generation throughout the economy, resulting in a larger total increase in national income for any given initial fiscal stimulus.

59. (D) The effects of taxation.
The study of the effects of taxation examines how the imposition of taxes influences individual economic decisions and behaviors. One critical area of this study is analyzing how income taxes affect a person's willingness to work,

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The theory of public expenditure has evolved through several key developments over time. It began with the Law of Increasing State Activity, followed by significant work on welfare economics and externalities. Later, the formal theory of public goods was established, and more recently, the Displacement Effect hypothesis was proposed to explain shifts in spending during crises. This sequence reflects the growing understanding of.

131. (C) Post-contractual asymmetric information.
Moral hazard is a market failure resulting from asymmetric information that occurs after a contract is signed. It happens when one party behaves more recklessly or changes their behavior because they are protected from the consequences of their actions, often through insurance. Because the other party cannot perfectly observe or monitor this behavior, it leads to inefficiencies and higher costs in various economic.

132. (D) Inflation.
Deficit financing through the printing of new money, also known as monetization of the deficit, increases the total money supply in the economy. If the supply of goods and services does not grow at the same rate, this excess money leads to an increase in the general price level. This process causes inflation, which reduces the purchasing power of the currency and.

133. (C) Personal income tax.
A direct tax is imposed on an individual's income or wealth, and the person legally responsible for the payment also bears the final economic burden. Personal income tax is a classic example of this, as it is paid directly by the earner to the government. Unlike indirect taxes like excise or sales tax, the burden of a direct tax cannot be easily.

134. (A) P-2, Q-3, R-4, S-1
Public finance involves several interconnected terms and concepts. Tax incidence refers to who ultimately bears the burden of a tax, while public debt is linked to government borrowing. Fiscal policy utilizes the budget multiplier to measure its impact on the economy. Finally, market failure is often caused by issues like asymmetric information. Correctly matching these terms is essential for a comprehensive understanding of.

135. (D) Increases the economy's productive capacity and reduces transport costs.
Public expenditure on infrastructure like roads and bridges is highly beneficial because it enhances the economy's overall productive capacity. Such investments reduce transportation costs and time for businesses and individuals, facilitating trade and economic activity. By providing these essential foundations, the government supports long-term growth and development that the private sector might not undertake on its own due to high costs and.

136. (A) Creates a wedge between the price paid by consumers and the price received by producers.
Imposing a tax on a product creates a gap between the price consumers pay and the amount producers actually receive. This wedge typically leads to a higher final price for buyers and a lower net price for sellers. As a result, the equilibrium quantity traded in the market decreases, often leading to a deadweight loss where the total surplus in the market.

137. (C) To ensure all firms earn a profit.
Government intervention in a market is typically justified to correct failures like externalities, provide public goods, or regulate monopolies to promote competition. However, ensuring that all firms earn a profit is not a standard rationale for intervention. In a healthy economy, some firms may fail due to competition or inefficiency, and the government does not generally guarantee profitability for every private business.

138. (B) b and c
Collusion occurs when firms in an industry secretly coordinate their actions, often by forming a cartel to fix prices or limit output. While this behavior increases the profits of participating firms, it harms consumers by reducing competition and raising prices. Therefore, effective anti-collusion regulation is essential for enhancing consumer welfare. Understanding these dynamics is key to maintaining a competitive market that.

139. (D) National income will increase by the same amount.

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211. (C) Overall budget surplus or deficit.
In a public budget, the overall budget surplus or deficit represents the difference between the government's total revenue and its total expenditure for the period. If revenue exceeds expenditure, there is a surplus; if expenditure is higher, there is a deficit. This measure provides a comprehensive view of the government's fiscal position and its impact on the national debt and the overall.

212. (D) A negative externality.
A Pigouvian tax is a specific type of corrective tax levied on economic activities that generate negative externalities, such as environmental pollution. The purpose of the tax is to increase the private cost of the activity to match its total social cost. By doing so, the government encourages individuals and firms to reduce the harmful activity to a more socially optimal level.

213. (A) Both A and R are true and R is the correct explanation of A.
The incidence of a tax refers to who ultimately bears the final economic burden, which may not be the same person who is legally responsible for the payment. This happens because the tax burden can be shifted through changes in market prices. Whether a tax is shifted forward to consumers or backward to producers depends on the relative price elasticities of demand.

214. (B) Regulation of the stock market.
A public budget has several important functions, including the allocation of resources for public goods, the redistribution of income and wealth through taxes and spending, and economic stabilization. However, the regulation of the stock market is not a function of the public budget. That responsibility typically belongs to a dedicated regulatory body that operates independently of the government's annual budget.

215. (D) Asymmetric information
Asymmetric information is a type of market failure where one party in a transaction has more or better information than the other. This imbalance leads to problems such as adverse selection before a contract is signed and moral hazard afterward. Both issues result in inefficient market outcomes and may even cause a market to collapse, necessitating government intervention to improve transparency and.

216. (A) Enforcing anti-collusion laws to ensure competitive pricing.
The government can improve consumer welfare by using regulation to enforce anti-collusion laws. When firms are prevented from agreeing to fix prices or limit output, competition is maintained. This ensures that prices remain closer to the cost of production and that consumers have a wider range of choices. Competitive pricing maximizes consumer surplus, which is a key measure of overall welfare in.

217. (C) Ability to pay.
A progressive tax system is based on the ability-to-pay principle, which suggests that individuals with higher incomes should contribute a larger proportion of their earnings to the government. This is achieved by increasing the tax rate as income rises. This approach aims to promote social justice and reduce economic inequality by ensuring that the tax burden is distributed fairly among different.

218. (A) An automatic stabilizer.
Automatic stabilizers are fiscal policy tools that automatically adjust without the need for new legislation to help stabilize the economy. An increase in public expenditure on unemployment benefits during a recession is a perfect example. As more people lose their jobs, the government automatically spends more, which helps to support aggregate demand and soften the impact of the economic downturn on individuals.

219. (B) a, c, and d
Public revenue includes all forms of income received by the government, such as income from corporation tax, fees collected for services like land registration, and grants from foreign countries. These funds are used to finance various public expenditures. However, borrowings from the World Bank and the sale proceeds from PSU disinvestment are not considered revenue; instead, they are classified as capital receipts.

220. (B) Minimizing borrowing costs over the long run.

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148. (D) A reduction in private spending or investment due to increased government borrowing or spending.

The crowding-out effect refers to a situation where increased government spending or borrowing leads to a reduction in private sector spending or investment. This often occurs because government demand for loans drives up interest rates, making it more expensive for businesses to borrow. As a result, private investment may fall, potentially offsetting some of the positive impact intended by the initial government.

149. (C) Escheat (claim on property with no heir).

Non-tax revenue includes all government income that is not derived from taxes. One unique example is escheat, which is the government's claim on property when an individual dies without leaving a legal heir or a will. Other sources include fees, fines, and profits from public enterprises. Income tax, value-added tax, and customs duty are all forms of tax revenue used to.

150. (B) It is levied on goods and services, and its burden can be shifted.

An indirect tax is characterized by its ability to be shifted from the initial payer to another party. These taxes are typically levied on goods and services, such as GST or excise duty. While the business is responsible for paying the tax to the government, it usually passes the cost to the final consumer through a higher price. This shifting of the.

151. (D) Repudiation.

Repudiation is a public debt management method where a government officially refuses to honor its debt obligations. This extreme measure is very rare and typically occurs following a major political revolution or severe financial collapse. While it eliminates the debt, it severely damages the country's creditworthiness and makes it nearly impossible to borrow from international or domestic markets in the future.

152. (A) There is a complete set of markets for all goods and services.

The First Fundamental Theorem of Welfare Economics assumes that there is a complete set of markets for all possible goods and services. The existence of externalities violates this assumption because there is no market for the external costs or benefits produced. Without a price to reflect these effects, the market fails to allocate resources efficiently, leading to a breakdown in the.

153. (C) A cartel.

A cartel is a formal agreement among firms in an industry to coordinate their production and pricing decisions. By acting together to fix prices and limit output, the member firms aim to maximize their collective joint profits as if they were a single monopoly. This behavior reduces competition and harms consumers, which is why cartels are illegal in many jurisdictions and.

154. (A) Either a regressive or a proportional tax.

A non-progressive tax system is one where the average tax rate does not increase as income rises. This category includes both proportional taxes, where the rate is constant for all income levels, and regressive taxes, where the rate actually decreases as income increases. Both types are considered non-progressive because they do not follow the ability-to-pay principle that characterizes a progressive tax.

155. (C) a, b, and e

The budget multiplier is a fundamental Keynesian concept that measures how much national income changes for a given change in government spending. Its value is determined by the marginal propensity to save, with the multiplier being its reciprocal. It explains the magnifying effect of fiscal policy on the economy. However, the claim that the balanced budget multiplier is zero is incorrect, as its.

156. (B) Achieve economic stability and growth through the government's budget.

Fiscal policy is the government's primary method for influencing the economy, and it is operated through two main instruments: public expenditure and taxation. By adjusting how much it spends on services and infrastructure, and how much it collects from individuals and businesses, the government can manage aggregate demand. These tools are used to achieve objectives such as economic growth, price stability, and.

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The balanced budget multiplier has a value of one, which means that an equal increase in government spending and taxes will increase national income by exactly the same amount. This happens because the injection from spending is more powerful than the leakage from taxes. While all the spending goes into the economy, part of the taxes would have been saved rather than spent by.

140. (B) It can be a useful tool for financing public investment and managing economic cycles.
Public debt is a versatile fiscal tool that governments use to finance infrastructure investments and manage economic cycles. While excessive debt can be problematic, it is not inherently bad for the economy. When borrowed funds are used for productive purposes, they can stimulate long-term growth. Additionally, running a deficit during a recession can help boost demand and support recovery, making debt a.

141. (C) A negative externality of consumption.
A tax on cigarettes, often called a sumptuary or sin tax, is a policy designed to address the negative externalities associated with smoking. Consumption of tobacco imposes health costs on individuals and secondary smoke harms others, creating social costs that exceed the private price. By taxing cigarettes, the government increases the price, discouraging consumption and helping to internalize these external costs.

142. (D) decreases as the taxpayer's income increases.
A regressive tax is a system where the average tax rate decreases as the taxpayer's income increases. This means that individuals with lower incomes pay a larger percentage of their earnings in tax compared to those with higher incomes. This structure is often criticized for being inequitable as it places a heavier relative financial burden on the poor, who have less ability.

143. (A) Public expenditure and taxation.
Fiscal policy is the government's primary method for influencing the economy, and it is operated through two main instruments: public expenditure and taxation. By adjusting how much it spends on services and infrastructure, and how much it collects from individuals and businesses, the government can manage aggregate demand. These tools are used to achieve objectives such as economic growth, price stability, and.

144. (D) Statement I is incorrect but Statement II is correct.
Government revenue is categorized into tax and non-tax sources. Profits from state-owned enterprises are a form of non-tax revenue, not tax revenue. Similarly, fees paid for specific services, such as a driver's license, are also classified as non-tax revenue because they are linked to a particular service provided. Understanding these distinctions is important for analyzing how the government funds its various activities.

145. (B) A likely increase in the budget deficit in the short run.
An expansionary fiscal policy involves increasing government spending or decreasing taxes to boost aggregate demand. A primary implication of this policy is a likely increase in the budget deficit in the short run, as the government spends more than it collects. While this can stimulate economic growth and employment, it also requires increased borrowing, which adds to the national debt over.

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146. (A) Market failure.
Market failure describes a situation where the free market, left to its own devices, does not result in an efficient allocation of resources. This can happen due to various factors, including the existence of public goods, externalities, or asymmetric information. In these cases, the price mechanism fails to reflect the true social costs and benefits, often necessitating government intervention to improve.

147. (A) Both A and R are true and R is the correct explanation of A.
The fiscal deficit is a critical measure that reflects the government's total borrowing requirements for a given year. It is calculated as the difference between total expenditure and total receipts, excluding borrowings. This indicator shows how much the government must borrow to cover its spending gap. A high fiscal deficit indicates a significant reliance on debt, which can have long-term implications.

expenditure includes spending on social services like healthcare. Matching these examples correctly is fundamental to understanding the government's role in the.

166. (B) Need for future tax increases or spending cuts.
Consistently running a large fiscal deficit means the government is continuously spending more than it earns, leading to an increasing national debt. A key implication of this behavior is that the government will eventually need to implement future tax increases or spending cuts to manage its debt and interest payments. This situation places a long-term burden on the economy and future generations of.

167. (D) people can be prevented from using the good.
A good is considered excludable if it is possible and practical to prevent people who do not pay for it from using it. This is a common characteristic of private goods, like a loaf of bread or a movie ticket. Excludability allows producers to charge a price for their product and is a key requirement for a functioning market where private firms provide.

168. (A) Both Statement I and Statement II are correct.
A proportional tax system is a type of non-progressive taxation where the average tax rate remains the same regardless of the taxpayer's income level. Everyone pays the same percentage of their earnings as tax. Both statements correctly describe this system, which is noted for its simplicity and lack of a redistribution effect compared to progressive systems that tax higher incomes at higher.

169. (C) Tax revenue comes from compulsory levies, whereas non-tax revenue arises from other sources like fees and profits.
The basic difference lies in their source. Tax revenue is collected through compulsory levies imposed by the government (such as income tax or GST), which citizens must pay by law. Non-tax revenue, on the other hand, comes from other sources like fees, fines, interest, dividends, and profits from public enterprises. Thus, the distinction is based on compulsion versus ancillary income sources.

170. (A) The existence of perfect competition.
Market failure occurs when the free market fails to allocate resources efficiently, often due to externalities, public goods, or asymmetric information. Perfect competition, however, is a theoretical market structure that is characterized by efficiency and is not a reason for market failure. In a perfectly competitive market, resources are allocated in a way that maximizes social welfare, providing a benchmark for.

171. (D) Economic decisions regarding work, saving, investment, and consumption.
The effects of taxation refer to the broad impact that taxes have on the economic decisions made by individuals and businesses. This includes how taxes influence a person's willingness to work, save, and invest, as well as their consumption choices. By altering incentives and disposable income, taxes can significantly change the overall level of economic activity and the allocation of resources.

172. (A) Both A and R are true and R is the correct explanation of A.
Managing public debt is essential for a country's macroeconomic stability. Poor management can result in high borrowing costs, which strain the government budget and can crowd out private investment by raising interest rates. In extreme cases, it can even lead to a sovereign debt crisis where the government is unable to meet its obligations. Therefore, a strategic approach to debt is.

173. (C) Increase national income by the same amount as the increase in spending.
The balanced budget multiplier of one implies that if the government increases spending and taxes by the same amount, national income will grow by that same amount. This happens because the positive stimulus from government spending is stronger than the negative effect of the tax increase. While the spending goes directly into the economy, the tax only reduces consumption by a portion of.

174. (D) Achieve greater equity in income distribution by taxing higher incomes at higher rates.
A progressive tax system is specifically designed to achieve greater equity in income distribution by taxing higher incomes at higher rates. This approach is based on the ability-to-pay principle,

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intervenes by levying a Pigouvian tax on the factory. Finally, the factory responds to the higher costs by reducing its.

193. (B) Collected directly from the persons on whom they are imposed.
Direct taxes are those that are collected directly from the individuals or entities on whom they are imposed. This means that the person who has the legal impact of the tax also bears its final economic incidence. Because the burden of a direct tax cannot be easily shifted to others, it is considered a more direct way for the state to collect.

194. (A) Consumer surplus.
Consumer welfare is a central concept in microeconomics, and it is most commonly measured by consumer surplus. This surplus is the difference between the maximum price a consumer is willing to pay for a good and the actual price they pay in the market. A larger consumer surplus indicates a higher level of welfare, as individuals are obtaining more value than they expected.

195. (A) Both A and R are true and R is the correct explanation of A.
For a public good, everyone in the community consumes the same total quantity because it is non-rivalrous. However, individuals may have different marginal valuations or willingness to pay for that quantity. Therefore, the total demand curve for a public good is found by vertically summing the individual demand curves. This reflects the total social benefit at each possible level of the public.

196. (D) Setting the price level for the entire economy.
Public debt management is focused on the strategic handling of the government's liabilities. This includes minimizing borrowing costs, choosing the appropriate maturity structure for loans, and deciding which currencies to borrow in. However, managing public debt is not used to set the general price level for the entire economy. While it can influence liquidity and interest rates, it is not a direct.

197. (C) The marginal propensity to consume is high.
The budget multiplier represents the magnification effect of government spending on national income. This multiplier is higher when the marginal propensity to consume is large. This is because a higher propensity to consume means that people will spend a greater portion of any new income they receive, which then becomes income for others, leading to more rounds of spending and a larger.

198. (B) A potential rise in unemployment.
Contractionary fiscal policy is used to control inflation by reducing government spending or increasing taxes, which lowers aggregate demand. While this policy can stabilize prices, it often leads to slower economic growth and a potential increase in the unemployment rate. This occurs because firms may reduce production and hiring as total spending in the economy falls, illustrating the typical trade-off between inflation.

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199. (D) Regressive tax.
A lump-sum tax is a fixed amount that everyone must pay, regardless of their income or consumption level. Because this fixed amount represents a larger percentage of income for those who earn less, it is considered a regressive tax. Unlike proportional or progressive taxes, it does not change based on the taxpayer's economic situation, making its relative burden heavier for lower-income individuals.

200. (A) A market with many buyers and sellers where price adjusts to equate supply and demand for a private good.
Market failure occurs when the price mechanism fails to achieve an efficient allocation of resources, such as in cases of pollution, monopolies, or non-excludable goods. However, a market with many buyers and sellers where the price adjusts to balance supply and demand for a private good is an example of a perfectly functioning market. In this scenario, resources are allocated efficiently without any.

201. (B) P-2, Q-1, R-4, S-3
Economic goods and services can be classified based on their characteristics. National defense is a classic public good, being non-rivalrous and non-excludable. A can of soda is a private good because it is both rivalrous and excludable. Education provides a positive externality to society. Fish in the open ocean are a common

the difficulty of stopping people from using a good. Moral hazard describes an insured person behaving more recklessly. Adverse selection happens when high-risk individuals are more likely to buy insurance. Matching these helps identify appropriate regulatory.

184. (A) An increasing average tax rate as income rises.
The defining difference between a progressive tax and other systems is that a progressive tax has an increasing average tax rate as the taxpayer's income rises. This means that higher earners pay a larger percentage of their income in tax. In contrast, non-progressive systems like proportional or regressive taxes have either a constant or a decreasing average rate as income increases, respectively.

185. (C) Deficit budget.
A deficit budget occurs when a government's planned expenditures exceed its total estimated revenues for a given fiscal period. To cover this gap, the government must borrow funds from domestic or international sources, which adds to the national debt. While deficit spending can be used to stimulate the economy during a recession, persistent deficits can lead to long-term financial stability.

186. (A) Greater than the socially optimal quantity.
When a negative externality like pollution is present, the private cost of production is lower than the true social cost. Because firms do not pay for the damage they cause, they tend to produce more than what is socially optimal. This overproduction leads to an inefficient allocation of resources where the market output is greater than the level that would maximize.

187. (D) Bank rate
Fiscal policy involves the use of government spending, taxation, and public debt to influence the economy. These are the main instruments managed by the finance ministry. The bank rate, however, is a tool of monetary policy, which is managed by the central bank. The bank rate is the interest rate at which the central bank lends money to commercial banks and.

188. (B) Consumer welfare.
Regulation of markets is often justified as a way to improve consumer welfare by correcting market failures. This includes enforcing anti-collusion laws to ensure competitive pricing and regulating natural monopolies to prevent price exploitation. By promoting competition and ensuring fair practices, regulation aims to increase the surplus that consumers receive from their transactions, ultimately leading to a more efficient and equitable.

189. (B) b and c
Market failure is a situation where the free market does not achieve an efficient outcome. It is often caused by factors like externalities and asymmetric information, which distort prices and resource allocation. However, market failure does not occur when a market is perfectly competitive. Both externalities and asymmetric information are major sources of failure, whereas the government itself can also be a.

190. (D) Built up by setting aside a part of government revenue annually to repay the debt.
A sinking fund is a financial management tool used for the gradual repayment of public debt. The government sets aside a specific part of its revenue each year into this fund to accumulate enough money to repay the principal amount of a loan when it matures. This systematic approach ensures that the government can meet its future obligations without causing a sudden fiscal.

191. (A) A $200 billion increase in national income.
The budget multiplier measures the final impact on national income from a change in government spending. If the multiplier is 2, it means that every dollar spent by the government results in two dollars of additional national income. Therefore, a 100 billion dollar increase in government spending would lead to a total increase of 200 billion dollars in the national income through.

192. (B) 3, 1, 2, 4
The chronological sequence of correcting a negative externality begins with a factory polluting a river, which imposes costs on others. This leads to the market overproducing the good because the external costs are not considered. Once this failure is identified, the government

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where those with more resources contribute a larger share. By reducing the disposable income of the wealthy more than the poor, progressive taxes help to narrow the gap between different social groups.

175. (B) b, c, e

Public goods are defined by being non-rivalrous and non-excludable. National defense is a classic example as it protects all citizens simultaneously. Street lighting is another public good because it is provided for everyone and one person's use doesn't diminish it. A non-encrypted radio broadcast also fits this definition as anyone can listen without exclusion. These goods are typically provided by the government.

176. (B) An oligopoly.

Collusion is most likely to occur in an oligopolistic market, which is characterized by a small number of large firms. Because there are only a few competitors, it is easier for them to communicate and reach an agreement to fix prices or limit production levels. By cooperating instead of competing, these firms can behave like a monopoly and increase their collective profits at.

177. (B) Increases its spending or reduces taxes.

Expansionary fiscal policy is a government strategy to stimulate economic growth, usually implemented during a recession. This is achieved by either increasing government spending or reducing tax rates. Both actions work to increase the total level of aggregate demand in the economy, which can lead to higher production and more jobs. This policy aims to close the gap between actual and potential.

178. (A) Interventions designed to correct the inefficiencies of market failure.

In the context of market failure, remedial measures refer to the various interventions that a government uses to correct economic inefficiencies. These measures include providing public goods, taxing negative externalities, and regulating monopolies to promote competition. The goal is to move the market closer to a socially optimal outcome where resources are allocated efficiently and the overall welfare of society is.

179. (C) Revenue and capital expenditure.

Public expenditure is broadly classified into revenue and capital expenditure based on the nature of the spending. Revenue expenditure includes routine, day-to-day costs that do not create assets, such as salaries and interest payments. Capital expenditure, on the other hand, involves spending that creates long-term assets or reduces liabilities, like building schools or roads. Understanding this classification is essential for analyzing a.

180. (D) Detail the financial plan and policy of the government for the upcoming fiscal year.

The primary purpose of a public budget is to provide a detailed financial plan and policy statement for the upcoming fiscal year. It outlines the government's estimated revenues and proposed expenditures, showing how resources will be allocated among different sectors. By presenting this plan, the government communicates its economic priorities and its intended fiscal stance to the legislature and the general.

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181. (C) It depends on the relative elasticities of demand and supply.

The incidence of taxation identifies who ultimately bears the economic burden of a tax, which is not always the person legally responsible for paying it. This final burden depends on the relative price elasticities of demand and supply for the taxed product. Producers may shift the burden to consumers if demand is inelastic. The claim that legal and economic incidence are.

182. (B) The interest payments on the debt become excessively large.

Public debt can become a significant burden on the economy if the interest payments on that debt grow to be excessively large. When a large portion of government revenue is diverted to pay interest, it leaves less money available for essential services like education and healthcare. This can lead to higher taxes or reduced spending, hindering long-term economic growth and social.

183. (B) P-3, Q-4, R-2, S-1

Key concepts in market failure are described by specific characteristics. Non-rivalry means one person's use does not prevent others from using the good. Non-excludability refers to

resource, which are rivalrous but difficult to exclude from others.

202. (A) The effects of taxation.
The study of the effects of taxation examines how the imposition of taxes can influence important economic decisions and behaviors. One significant area of interest is how income taxes affect the supply of labor, meaning whether people choose to work more or less when their after-tax wages change. These effects are crucial for understanding the overall impact of tax policy on economic.

203. (D) It has no role in correcting market failures.
Public expenditure is a key component of aggregate demand and a powerful tool of fiscal policy. It can be used to influence the distribution of income and encompasses both consumption and investment spending by the government. However, the claim that it has no role in correcting market failures is incorrect. In fact, providing public goods and correcting externalities are primary reasons for.

204. (B) A system where the tax rate is the same for all income levels.
A non-progressive tax system is characterized by an average tax rate that does not increase as income rises. The most common example is a proportional tax, where the rate is the same for all income levels. In such a system, everyone pays the same percentage of their earnings as tax. This is distinct from a progressive system, which uses multiple brackets and.

205. (C) The annual government budget.
The primary tool for implementing fiscal policy is the annual government budget. This document outlines the planned spending and revenue collection for the fiscal year, allowing the government to manage aggregate demand and address social and economic objectives. While monetary policy is managed by the central bank and trade agreements affect international commerce, the budget is the direct instrument of fiscal.

206. (C) Statement I is correct but Statement II is incorrect.
External debt is the portion of a country's total public debt that is owed to creditors outside the nation, such as foreign governments or international organizations. While Statement I correctly defines this, Statement II is incorrect. Managing external debt is actually more complex than internal debt because it involves foreign exchange risk, as fluctuations in the currency value can significantly increase the.

207. (A) Non-rivalrous and non-excludable.
A public good is fundamentally distinguished from a private good by its two defining characteristics: non-rivalry and non-excludability. Non-rivalry means that one person's consumption does not reduce the amount available for others. Non-excludability means that it is not possible to prevent anyone from using the good once it is provided. These traits make it difficult for private markets to provide these goods.

208. (B) Economic efficiency and consumer welfare.
Market regulation in industries with collusion is primarily aimed at enhancing economic efficiency and consumer welfare. When firms agree to fix prices or limit output, they act as a monopoly, resulting in higher prices and lower quantities for consumers. By enforcing anti-collusion laws, the government promotes competition, which helps to lower prices, increase choice, and ensure that resources are allocated more.

209. (B) Wealth tax.
Indirect taxes are levied on goods and services, and their burden can be shifted from the initial payer to the final consumer. Examples include GST, customs duties, and excise duties. Wealth tax, however, is a direct tax imposed on the net value of an individual's assets. Because the burden of a wealth tax falls directly on the owner, it cannot be.

210. (A) a, b, and c
Fiscal policy involves the government's use of its budget to influence the economy. An expansionary policy might involve lowering taxes or increasing spending, while a contractionary policy could involve the opposite. These actions have significant implications for public debt. However, the primary goal of fiscal policy is not to control the money supply; that is the role of monetary policy managed by.

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157. (C) People with higher risks to be more likely to seek insurance.

Adverse selection in insurance occurs when individuals with higher-than-average risk are more likely to apply for insurance than those with lower risk. This happens because the individuals have more information about their own risk profile than the insurance company does. This imbalance can lead to an inefficient market where premiums rise, potentially causing low-risk individuals to drop out and destabilizing the.

158. (D) Achieving social objectives such as poverty reduction and better health.

Public expenditure is a vital tool used by governments to achieve important social objectives like reducing poverty and improving healthcare. By spending on services that benefit the vulnerable and investing in public goods, the government can promote social welfare and reduce economic inequality. This spending helps provide a safety net and essential services that the private market may fail to provide.

159. (A) Demand is less elastic than supply.

The burden of a tax on a good is shared between buyers and sellers based on the relative elasticities of demand and supply. If the demand for a product is less elastic than its supply, consumers are less sensitive to price changes and have fewer alternatives. In this case, producers can pass on a larger portion of the tax through higher prices.

160. (B) Balanced, surplus, or deficit.

A public budget can be classified into three types based on the relationship between estimated revenue and planned expenditure. A balanced budget occurs when revenue equals expenditure. A surplus budget happens when revenue exceeds expenditure, while a deficit budget occurs when expenditure is greater than revenue. These different budget types reflect the government's fiscal stance and its plan for managing.

161. (B) The reduction in total surplus (consumer and producer surplus) that is not offset by tax revenue.

Deadweight loss represents the total reduction in economic welfare, specifically consumer and producer surplus, that is caused by a tax and is not offset by the tax revenue collected. It occurs because the tax distorts market prices and discourages mutually beneficial transactions that would have otherwise taken place. This loss is a measure of the inefficiency introduced into the market by the.

162. (A) Fiscal Policy - Use of government spending and taxes

Fiscal policy is correctly defined as the government's use of spending and taxation to influence the economy. Other concepts in the field include public goods, which are non-rivalrous, and collusion, which typically reduces consumer welfare by raising prices. Public debt can be either internal or external. Correctly matching these terms is essential for understanding how the government interacts with the market.

163. (B) Distribution of information among parties to a transaction.

The primary difference between asymmetric information and perfect information is the way information is distributed among the parties in a transaction. In a perfect information scenario, everyone has the same complete knowledge. Asymmetric information occurs when one party, such as a seller, knows more about a product's quality than the other party, the buyer. This imbalance can lead to various market failures.

164. (D) Collusive agreements harm consumers and reduce overall economic efficiency.

Market regulation designed to prevent collusion is based on the principle that such agreements among firms harm consumers and reduce overall economic efficiency. When firms cooperate to fix prices and limit output, they act like a monopoly, leading to higher prices and a less efficient allocation of resources. Anti-collusion laws aim to protect the competitive process and ensure better outcomes for.

165. (A) P-3, Q-4, R-1, S-2

Government finance involves various types of revenue and expenditure. Corporate income tax is a direct tax paid by businesses. The Goods and Services Tax (GST) is an indirect tax on consumption. Administrative fees, like those for birth certificates, are non-tax revenues. Public

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Public debt management aims to ensure that the government's financing needs are met while minimizing borrowing costs over the long run. It also focuses on maintaining a stable and efficient market for government securities. However, maximizing the level of public debt is not an objective. Excessive debt can lead to fiscal instability and high interest payments, which can harm the overall economy.

221. (C) The marginal propensity to consume.
The budget multiplier measures the total increase in national income resulting from an initial change in government spending. Its value is determined by the marginal propensity to consume. A higher propensity to consume means that people spend a larger portion of their additional income, leading to more rounds of spending throughout the economy and a greater final impact on the national income.

222. (D) A tax with a constant marginal rate for all income levels.
A non-progressive tax is one where the average tax rate does not increase as income rises. A tax with a constant marginal rate for all income levels, also known as a proportional or flat tax, is a clear example. In this system, every taxpayer pays the same percentage of their income, regardless of their total earnings, making it distinct from a progressive tax.

223. (A) Government intervention can potentially improve upon market outcomes.
Market failure occurs when the free market mechanism does not achieve an efficient allocation of resources. This concept suggests that in such cases, government intervention can potentially improve upon market outcomes and increase social welfare. By providing public goods, regulating monopolies, and correcting externalities, the government can help to ensure that resources are used in a way that better serves the needs.

224. (B) The government increases its expenditure on infrastructure.
Expansionary fiscal policy involves government actions to stimulate economic growth, particularly during a recession. Increasing expenditure on infrastructure, such as building roads or bridges, is a primary example of this policy. This direct injection of money into the economy boosts aggregate demand, creates jobs, and encourages production. Other actions, like raising interest rates or increasing taxes, would instead be considered contractionary or.

225. (B) P-2, Q-1, R-4, S-3
Public finance involves several key concepts with distinct characteristics. A public good is defined by non-rivalry and non-excludability. Externalities are market failures that can be corrected using Pigouvian taxes or subsidies. The fiscal deficit indicates the government's total borrowing requirement for the year. Finally, a progressive tax is one where the average rate rises with income. Correctly matching these concepts is essential for understanding.

226. (A) Alter the relative prices of goods, leisure, and work.
One of the major effects of taxation is the substitution effect, which occurs when a tax changes the relative prices of goods or the relative reward for labor versus leisure. For example, a high income tax may lead individuals to work fewer hours and choose more leisure instead. By altering these incentives, taxes can significantly impact the allocation of time and resources.

227. (C) A secret or illegal cooperation between firms to deceive or cheat others.
Collusion is best described as secret or illegal cooperation between firms, usually within the same industry, to deceive or cheat others. This typically involves agreements to fix prices, limit production levels, or divide market shares. By acting together as a single unit, colluding firms can exercise monopoly power and increase their collective profits at the expense of consumers and overall market efficiency.

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228. (D) Securities Transaction Tax (STT)
A direct tax is one where the legal responsibility to pay and the final economic burden fall on the same individual or entity. The Securities Transaction Tax (STT) is an example of a direct tax because it is levied directly on the value of securities transactions. In contrast, customs duty, excise duty, and GST are all indirect taxes where the burden can.

in these areas, the government aims to correct market failures, promote economic growth, and ensure a more equitable distribution of resources for the benefit.

247. (D) Who bears the final economic burden of the tax.

The study of the incidence of taxation focuses on identifying who ultimately bears the final economic burden of a tax. This is important because the person legally responsible for paying the tax to the government may be able to shift that burden to others through changes in market prices. Determining the final incidence is crucial for understanding the true impact of tax.

248. (A) P-3, Q-1, R-4, S-2

Different types of market failure require specific remedial measures. Public goods are best addressed through direct government provision. Negative externalities like pollution can be corrected using Pigouvian taxes. Market failures caused by asymmetric information often require the government to implement disclosure requirements or regulations. Finally, antitrust legislation is used to prevent firms from engaging in harmful collusion and to promote competition.

249. (C) Regulation of the money supply

Fiscal policy has several key objectives, including achieving economic growth, maintaining price stability, and reducing income inequality through taxation and spending. However, the regulation of the money supply is not an objective of fiscal policy. Instead, it is the primary focus of monetary policy, which is managed by the central bank. While both policies are important, they utilize different tools and.

250. (A) A person who is a heavy smoker and has a family history of cancer is more likely to apply for life insurance than a healthy person.

Adverse selection is a problem of asymmetric information that occurs before a transaction. A perfect illustration is when a person with a high health risk, such as a heavy smoker, is more likely to apply for life insurance than a healthy person. Because the individual has more information about their own risk than the insurer, the market becomes inefficient and premiums may rise.

251. (B) It results in an inefficient allocation of resources.

Asymmetric information creates an imbalance where one party holds more material knowledge than the other. This distortion prevents markets from operating optimally, leading to outcomes that are not Pareto efficient. Because decisions are based on incomplete data, resource allocation becomes skewed, causing societal welfare losses and preventing the attainment of competitive equilibrium across various sectors of the national economy.

252. (A) A person with a high-risk health profile being more likely to purchase health insurance.

Adverse selection occurs prior to a transaction when individuals with private knowledge about their high-risk status are more inclined to participate in a market. This selection advantage leads to a pool dominated by risky participants. In insurance, those knowing they have health issues seek coverage more aggressively, which can cause premiums to rise and eventually lead to market failure.

253. (C) the timing of the information asymmetry relative to the transaction.

Economic theory distinguishes between these two concepts primarily through the chronological point at which the information gap impacts the market. Adverse selection involves hidden information existing before a contract is signed, affecting who enters the transaction. In contrast, moral hazard describes hidden actions and behavioral changes that occur after the transaction is finalized, altering the underlying risk profile significantly.

254. (D) after a transaction has been concluded.

Moral hazard describes a situation where a party alters their behavior following the completion of an agreement or contract. Because the individual no longer bears the full consequences of their actions, they often engage in riskier behavior. This post-contractual information asymmetry occurs because the other party cannot perfectly monitor or control the actions of the insured or contracted entity.

255. (C) To reduce the information gap and improve market efficiency.

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received on government loans, and commercial income like the profits earned by public sector undertakings (PSUs). These revenue streams are an important part of the public budget and help the government fund its various activities.

238. (A) Both A and R are true and R is the correct explanation of A.
A well-managed public debt portfolio is essential for supporting a country's fiscal and monetary policies. The total size and structure of the debt can influence interest rates and the overall level of liquidity in the financial system. Additionally, careful management ensures that the government can conduct counter-cyclical fiscal policy during economic downturns without causing a financial crisis, thereby promoting long-term stability.

239. (A) Firms collude to raise prices above the competitive level.
Consumer welfare, which is the overall well-being of individuals in a market, is said to decrease when firms collude to raise prices. By agreeing to restrict output and keep prices high, colluding firms act like a monopoly and capture more surplus for themselves at the expense of consumers. This reduction in competition leads to higher costs and fewer choices for buyers, harming their.

240. (B) Keynesian school of thought.
The budget multiplier concept is a central part of the Keynesian school of economic thought. This theory emphasizes the role of government spending and taxation in managing aggregate demand and influencing national income. Keynesian economists argue that through the multiplier effect, an initial change in fiscal policy can lead to a much larger final impact on the economy, helping to combat recessions.

241. (B) Value Added Tax (VAT)
An indirect tax is a tax imposed on the production or sale of goods and services, and its burden can be shifted from the initial payer to another party. Value Added Tax (VAT) is a classic example of this, as businesses collect it from consumers and then pay it to the government. In contrast, income and corporate taxes are direct taxes paid.

242. (A) One party has more information than another, leading to poor decisions.
Market failure often arises from asymmetric information, which is a situation where one party in a transaction has more or better information than the other. This imbalance prevents parties from making informed decisions and can lead to inefficient outcomes like adverse selection or moral hazard. In such cases, the price mechanism fails to reflect the true value or risk, requiring government.

243. (C) Accounts for the government's total borrowing needs, including for capital creation.
The primary difference between the fiscal deficit and the revenue deficit is that the fiscal deficit is a more comprehensive measure. It accounts for the government's total borrowing requirements, including the funds needed for capital creation and asset building. While the revenue deficit only looks at the gap in routine expenditures, the fiscal deficit shows the total amount the government must borrow.

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244. (D) A type of non-progressive tax.
A proportional tax is a type of non-progressive tax system where the tax rate remains the same for all levels of income. Under this flat-rate system, every taxpayer pays the same percentage of their earnings as tax, regardless of whether they earn a high or low income. While simple to administer, it does not aim to reduce income inequality through redistribution.

245. (C) Expansionary fiscal policy.
The crowding-out effect is a potential negative consequence of an expansionary fiscal policy. When the government increases its spending and borrows more to finance the deficit, it can drive up interest rates in the economy. Higher interest rates make it more expensive for private individuals and businesses to borrow, which can lead to a reduction in private spending and investment.

246. (B) Fulfill its social and economic objectives.
Public expenditure is primarily undertaken by the government to fulfill its broad social and economic objectives. This includes providing public goods like national defense, building essential infrastructure, and offering social welfare programs to reduce poverty. By spending

264. (D) An individual receiving an education that benefits society as a whole.

Education provides a private benefit to the student, such as higher wages, but also generates significant external benefits for society. A more educated population contributes to higher productivity and better civic engagement. Because these external benefits are not fully captured by the individual in the market price, education represents a classic positive externality that merits government support and funding.

265. (A) greater than the private benefit.

A positive externality exists when the consumption or production of a good confers benefits on third parties. In this scenario, the total social benefit is the sum of the private benefit received by the consumer and the external benefit enjoyed by society. Consequently, the social benefit curve lies above the private benefit curve, indicating that the market under-values the good.

266. (B) To limit competition and increase joint profits.

Firms engage in collusion to reduce the uncertainty and competitive pressures inherent in a free market. By agreeing to fix prices or restrict output, they can collectively exercise market power similar to a monopoly. This coordination allows them to maximize their joint profits at the expense of consumers, who face higher prices and fewer choices than in a competitive environment.

267. (B) By forcing consumers to pay higher prices and reducing output.

Collusion harms consumer welfare by creating artificial scarcity and inflated prices. When firms agree to limit the quantity of goods available, the market price rises above the competitive level. This results in a loss of consumer surplus and prevents some buyers from purchasing the good. Additionally, the lack of competition often leads to reduced quality and slower technological innovation.

268. (A) single monopoly.

When firms successfully collude, they act in unison rather than competing against each other. This unified behavior mimics the structure of a single monopoly, where a single entity controls the entire market supply. By behaving as a monopolist, the group of colluding firms can set prices and output levels that maximize their collective profit, disregarding the competitive market equilibrium outcomes.

269. (C) protect consumers by detecting and punishing anti-competitive agreements.

Regulators and antitrust authorities intervene in markets to ensure fair competition and protect consumer interests. Their role involves monitoring firm behavior to identify illegal agreements like price-fixing or market sharing. By imposing significant fines and legal sanctions, regulation serves to dismantle cartels and deter future collusive activities, thereby promoting market efficiency and maximizing overall societal welfare through competitive pricing.

270. (D) the reduction in the difference between what consumers are willing to pay and what they actually pay.

Consumer surplus represents the economic benefit consumers receive when they purchase a good for less than their maximum willingness to pay. In uncompetitive markets, such as those dominated by collusion, prices are pushed upward. This price increase reduces the gap between the reservation price and the market price, thereby diminishing the total surplus and shifting economic value from consumers to producers.

271. (C) Tax revenue is a compulsory levy, while non-tax revenue is earned from other sources.

Tax revenue is characterized by its mandatory nature; it is a compulsory payment to the government without any direct link to specific services received. In contrast, non-tax revenue includes income the government earns through diverse means, such as fees for services, fines, interest on loans, or profits from public enterprises. This distinction is based on the legal origin.

272. (B) Its impact and incidence fall on the same entity.

Direct taxes are levied directly on the income or wealth of individuals and corporations. A defining feature is that the person or entity legally responsible for paying the tax to the authorities is also the one who ultimately bears

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Remedial measures like signaling and screening are designed to bridge the knowledge gap between economic agents. By facilitating the flow of reliable information, these strategies help mitigate market failures like adverse selection. When information is shared more equitably, markets can move closer to Pareto efficient outcomes, ensuring that resources are allocated based on accurate data and true individual attributes.

256. (B) Non-rivalry and Non-excludability.
Pure public goods are uniquely defined by two specific properties that distinguish them from private goods. Non-rivalry ensures that one person's consumption does not reduce the quantity available for others to use. Non-excludability means it is technically or economically unfeasible to prevent non-paying individuals from using the good. Together, these traits prevent traditional markets from providing such goods efficiently.

257. (D) Under-production or non-production of the public good.
The free-rider problem arises because individuals can benefit from a non-excludable good without contributing to its costs. This creates a situation where private firms cannot generate sufficient profit to cover production expenses. Consequently, the market fails to provide the good at the socially optimal level, often resulting in either a total absence of the good or severe under-provision.

258. (A) Because it is a service that is both non-rivalrous and non-excludable.
National defense protects an entire population simultaneously, and the protection of one citizen does not diminish the security provided to another. Furthermore, it is impossible to exclude specific residents from the umbrella of national security once it is established. These characteristics satisfy the criteria for a pure public good, necessitating collective provision and funding through government-mandated taxation systems.

259. (C) government intervention for the provision of the good.
Private markets struggle to provide public goods because the inability to exclude non-payers prevents profit maximization. Since the total social benefit of these goods often outweighs the costs, the state must intervene to correct this market failure. By using tax revenues to fund production, the government ensures that essential services are provided to the public regardless of individual contributions.

260. (A) essentially zero.
Non-rivalry implies that once a public good is produced, the cost of allowing one more individual to consume it does not add to the total production cost. For example, if a lighthouse is operational, an extra ship seeing the light does not increase operational expenses. Thus, the marginal cost for additional users is zero, making private market pricing mechanisms inefficient.

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261. (D) Market prices do not reflect the full social costs or benefits.
Externalities cause market failure because the price mechanism fails to capture the spillover effects on third parties. When private costs or benefits diverge from social costs or benefits, the resulting market price and quantity are no longer efficient. This lack of accounting for external impacts leads to a misallocation of resources, as producers and consumers ignore the total consequences.

262. (B) produce more than the socially optimal quantity.
In a free market, producers of goods with negative externalities only consider their private costs. Since they do not pay for the external damage caused, such as pollution, their marginal private cost is lower than the marginal social cost. This leads to overproduction and overconsumption relative to the level that would be efficient if all social costs were internalized.

263. (C) make private costs align with social costs for a negative externality.
A Pigouvian tax is a corrective measure designed to internalize an external cost. By setting the tax equal to the marginal external damage, the government forces the producer to face the full social cost of their actions. This adjustment aligns private incentives with societal welfare, encouraging the firm to reduce output to the socially optimal level and correcting failure.

229. (B) Both Statement I and Statement II are incorrect.

Public expenditure can be classified into developmental and non-developmental categories. Developmental expenditure includes spending that directly contributes to economic growth, such as investments in education, health, and infrastructure. Non-developmental expenditure includes necessary costs that do not directly increase productive capacity, such as defense and administration. Both statements in the question are incorrect because they have reversed the typical classification of these services.

230. (B) Government provision financed through taxation.

Public goods are non-rivalrous and non-excludable, which leads to the free-rider problem where private firms cannot profitably provide them. A primary remedial measure for this market failure is for the government to provide the good directly, financing it through compulsory taxation. This ensures that the essential service is available to everyone and that the costs are shared fairly across the entire.

231. (D) The sacrifices imposed on the community due to government borrowing.

The burden of public debt refers to the total sacrifices or costs imposed on society because of government borrowing. This includes the direct money burden of interest and principal repayments, as well as any indirect real burden, such as reduced future consumption or investment. Understanding this burden is essential for evaluating whether the benefits of the borrowed funds justify the long-term costs to.

232. (A) A decrease in the marginal propensity to save.

The budget multiplier effect measures the magnification of an initial change in government spending on the total national income. This effect is larger when the marginal propensity to save is smaller. When people save less and spend more of their additional income, it leads to more cycles of spending throughout the economy, resulting in a greater final increase in national income for any.

233. (C) The relative price elasticities of demand and supply.

The incidence of an indirect tax, which identifies who bears the final economic burden, depends on the relative price elasticities of demand and supply for that product. If consumers have few alternatives and demand is inelastic, producers can pass on more of the tax through higher prices. If supply is more inelastic than demand, producers will bear a larger share of the tax.

234. (C) a, b, and c

A progressive tax system is characterized by an average tax rate that increases as the taxpayer's income rises. This structure is based on the ability-to-pay principle, ensuring that those with higher incomes contribute a larger share of their earnings. By doing so, progressive taxes help to reduce income inequality and promote social equity. Other features, like constant rates, are associated with non-progressive.

235. (D) The overall level of aggregate demand, output, and employment.

The most significant implication of fiscal policy is its impact on the overall level of aggregate demand, output, and employment in the economy. By adjusting government spending and tax rates, the state can influence how much individuals and businesses spend. This management of total demand is essential for achieving macroeconomic stability, promoting economic growth, and reaching the goal of full employment.

236. (B) A negative externality.

A negative externality occurs when an economic activity imposes costs on others that are not reflected in the market price. This results in a situation where the total social cost of the activity is higher than the private cost borne by the producer. Because the producer does not pay for these external costs, they tend to overproduce the good, leading to market inefficiency.

237. (B) Revenue received by the government from sources other than taxes, such as fees, fines, and profits of PSUs.

Non-tax revenue is defined as all government income that is received from sources other than compulsory tax levies. This includes administrative income like fees and fines, interest

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the economic burden. Because these taxes cannot be easily shifted to others through price changes, the statutory and economic incidence remain identical.

273. (D) Profits from public sector undertakings.
Non-tax revenue encompasses all government income that does not arise from compulsory taxation. Profits generated by government-owned companies or public sector undertakings represent a significant source of such income. Unlike taxes, these funds are earned through commercial activities and the provision of goods or services. Other examples include administrative fees, penalties, grants-in-aid, and interest receipts from domestic loans.

274. (A) the final consumer.
While the legal responsibility to pay an indirect tax often lies with the producer or seller, the economic burden is typically transferred. This shifting occurs as businesses increase the retail price of goods and services to include the tax amount. Consequently, the final consumer bears the incidence of the tax, paying more for their purchases while the seller acts as a collection agent.

275. (C) the difference between direct and indirect taxes.
The concepts of impact and incidence help distinguish between tax types. In direct taxation, the impact and incidence coincide on the same taxpayer. In indirect taxation, the impact is on the seller who pays the state, while the incidence is on the consumer who bears the cost. This divergence is essential for analyzing distributive effects across different socioeconomic groups within society.

276. (A) As income increases, the average tax rate increases.
A progressive tax system is structured so that the tax burden increases more than proportionately with income. As a taxpayer's earnings rise, they move into higher tax brackets, resulting in a higher average tax rate. This design aims to achieve vertical equity by ensuring that those with a greater ability to pay contribute a larger percentage of their total wealth.

277. (D) proportional.
A proportional tax, also known as a flat tax, applies a single, constant tax rate to all levels of income or wealth. Regardless of whether a taxpayer earns a high or low income, the percentage of their income paid in taxes remains identical. This system maintains the same relative income distribution before and after tax, unlike progressive or regressive taxation structures.

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278. (B) the final distribution of the economic burden of a tax.
Tax incidence focuses on identifying who truly pays for a tax in an economic sense. While laws specify who must write the check to the government, market forces determine how the cost is shared between buyers and sellers. Analyzing economic incidence involves studying how prices change in response to a tax and how those changes affect participant welfare.

279. (C) demand is less elastic than supply.
The distribution of a tax burden depends on the relative price elasticities of demand and supply. When demand is less elastic, consumers are less responsive to price changes and are more willing or forced to keep buying even if prices rise. Consequently, sellers can pass a larger portion of the tax onto buyers through higher prices, increasing the consumer's burden.

280. (D) a regressive tax.
A regressive tax system is one where the proportion of income paid in taxes decreases as the taxpayer's income increases. Although higher-income individuals may pay more in absolute terms, the tax represents a smaller percentage of their total resources compared to lower-income individuals. Indirect taxes on necessities are often considered regressive because poor households spend a larger share on them.

281. (A) Revenue expenditure is for consumption, while capital expenditure creates assets.
Revenue expenditure refers to the operational costs incurred by the government for day-to-day administration and interest payments, which do not result in asset creation. Capital expenditure involves spending on projects that build physical or financial assets, such as infrastructure, or lead to a reduction in long-term liabilities.

This distinction is vital for understanding the government's role in promoting long-term growth.

282. (B) Construction of a new highway.
Building a highway is a prime example of capital expenditure because it involves the creation of a tangible physical asset that enhances the economy's productive capacity. Unlike regular administrative costs, this type of spending provides benefits over many years. Other examples include the construction of schools and hospitals, investments in machinery, and the acquisition of land or buildings for public use.

283. (B) influence aggregate demand and redistribute income.
Public expenditure serves as a powerful instrument of fiscal policy used to manage the overall level of economic activity. By increasing or decreasing spending, the government can directly influence aggregate demand to achieve macroeconomic stability. Furthermore, targeted spending on social programs and subsidies helps redistribute income and wealth, addressing social inequalities and ensuring the provision of essential services to citizens.

284. (A) functional classification.
A functional classification organizes government spending based on the specific services or objectives being addressed. This method groups expenditures into categories such as defense, health, education, and social security. This approach allows policymakers and the public to analyze how government resources are allocated across different sectors of society, reflecting the government's priorities and the specific functions it performs.

285. (C) Payment of pensions to retired government employees.
Pensions are classified as revenue expenditure because they represent current transfer payments that do not lead to the creation of any physical or financial assets for the government. These payments are part of the ongoing administrative and social obligations of the state. Other revenue expenditures include salaries for current staff, subsidies, and interest payments on previously accumulated public debt.

286. (D) government expenditure exceeds its revenue.
Public debt grows when the government runs a budget deficit, meaning its total spending on goods, services, and transfers is greater than the total revenue it collects from taxes and other sources. To cover this shortfall, the government must borrow funds from domestic or international lenders. Over time, these repeated borrowings accumulate, forming the total stock of debt.

287. (C) The location and identity of the creditors.
The primary distinction between internal and external debt lies in who provides the funds. Internal debt is borrowed from domestic sources, including resident individuals, local banks, and the central bank. External debt is owed to entities outside the country, such as foreign governments, international organizations like the IMF, or foreign commercial banks. This geographic distinction has significant implications for repayment.

288. (B) To finance government needs at the lowest possible cost with prudent risk.
Effective public debt management aims to ensure that the government's borrowing requirements are met efficiently. This involves balancing the objective of minimizing the interest costs associated with the debt against the need to manage various risks, such as refinancing and exchange rate risks. Prudent management is essential for maintaining fiscal sustainability and preventing debt from becoming a future burden.

289. (D) crowding out.
Crowding out occurs when heavy government borrowing in domestic financial markets leads to an increase in interest rates. As the cost of borrowing rises, private firms may find it too expensive to finance their own investment projects. This shift of capital from the private sector to the public sector can slow down long-term economic growth by reducing private capital accumulation.

290. (A) external debt.
The World Bank is an international financial institution headquartered outside the borrowing country. Any loans or credits obtained from such an organization are classified as external debt

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because the lender is a foreign entity. External debt must typically be serviced using foreign currency, which distinguishes it from domestic borrowing and requires careful management of the country's balance of payments and reserves.

291. (C) a statement of the government's estimated revenues and expenditures.
A public budget is a comprehensive annual financial plan that outlines the government's projected income and planned spending for the upcoming fiscal year. It serves as a blueprint for fiscal policy, detailing how the state intends to raise revenue through taxes and fees and how it will allocate those funds across various public services, infrastructure projects, and welfare programs.

292. (A) The magnified impact of fiscal policy changes on national income.
The budget multiplier concept illustrates that a change in government spending or taxation leads to a more than proportionate change in the total national income. This occurs because the initial change in spending triggers successive rounds of consumption and income generation throughout the economy. Understanding the size of these multipliers is crucial for policymakers when designing fiscal interventions to manage demand.

293. (D) lead to an increase in national income.
The balanced budget multiplier theory posits that if the government increases both spending and taxes by the same amount, the net effect on national income is positive. This happens because the expansionary effect of government spending is stronger than the contractionary effect of an equal tax increase. Specifically, the multiplier for such a balanced change is generally equal to one.

294. (B) marginal propensity to consume.
The government spending multiplier is directly influenced by the marginal propensity to consume, which represents the fraction of additional income that households spend. A higher propensity means that each round of the multiplier process generates more secondary spending, leading to a larger total increase in national income. Conversely, a higher marginal propensity to save reduces the size of this effect.

295. (C) taxation.
The tax multiplier quantifies the change in national income that results from a one-unit change in the level of taxation. Because a tax cut increases disposable income, leading to higher consumption, the tax multiplier measures the resulting expansionary effect. Conversely, a tax increase reduces disposable income and has a contractionary effect. The tax multiplier is typically smaller than the spending multiplier.

296. (D) taxation and public expenditure.
Fiscal policy is the primary macroeconomic tool used by governments to influence the economy through changes in revenue collection and spending levels. By adjusting tax rates and the volume of public expenditure, the state can manage aggregate demand to achieve objectives such as full employment and price stability. It operates alongside monetary policy, which focuses on interest rate management.

297. (A) stimulate the economy during a recession.
Expansionary fiscal policy is designed to boost economic activity when the economy is underperforming or in a recession. By increasing government spending or reducing taxes, the government puts more money into the hands of consumers and businesses. This increases total aggregate demand, encourages production, and helps lower unemployment rates, moving the economy back toward its potential output level.

298. (B) Increasing taxes on corporate profits.
Contractionary fiscal policy aims to slow down the economy, typically to combat high inflation. Increasing taxes on corporate profits or personal income reduces the disposable income available for investment and consumption. This decrease in private spending lowers aggregate demand, helping to cool off an overheating economy and stabilize price levels. Other measures include reducing government spending on infrastructure and programs.

299. (B) Promoting long-term growth and redistributing income.
Beyond short-term macroeconomic stabilization, fiscal policy is used to achieve structural economic goals. Investment in human capital and infrastructure promotes long-term productivity and growth. Additionally,

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through progressive taxation and targeted social spending, the government can redistribute income to reduce poverty and inequality. These functions ensure that the benefits of economic development are shared more equitably across the entire population.

300. (A) time lags in implementation and the crowding out of private investment.

The impact of fiscal policy can be hampered by several challenges. Time lags occur because it takes time for the government to recognize problems, pass legislation, and implement changes. Additionally, if the government borrows heavily to fund spending, it may drive up interest rates and crowd out private investment. These factors reduce the overall success of fiscal policy interventions.

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CHAPTER 07
Money and Banking

1. Which of the following is considered the most liquid measure of money supply?
(A) M3
(B) M1
(C) M4
(D) M2

2. Consider the following statements regarding the central bank and commercial banks.
Statement I : The central bank is the sole authority for the issue of currency in a country.
Statement II : Commercial banks can issue their own currency notes in specific designated regions.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

3. What is the primary function of a commercial bank?
(A) Regulating and supervising the capital market
(B) Formulating and implementing monetary policy
(C) Accepting deposits and providing loans
(D) Printing and issuing national currency notes

4. The policy rate at which the central bank lends money to commercial banks against government securities for a short term is known as the:
(A) Reverse Repo Rate
(B) Bank Rate
(C) Marginal Standing Facility Rate
(D) Repo Rate

5. Match the type of Non-banking Financial Institution (NBFC) in List-I with its primary business in List-II.
List I: (Type of NBFC)
P. Asset Finance Company
Q. Investment Company
R. Loan Company
S. Infrastructure Finance Company
List II: (Primary Business)
1. Providing finance for physical assets supporting economic activity
2. Acquisition of securities
3. Providing finance for infrastructure projects
4. Providing finance by making loans or advances for any activity other than its own
Codes:
(A) P-1, Q-2, R-4, S-3
(B) P-2, Q-1, R-3, S-4
(C) P-4, Q-3, R-2, S-1
(D) P-1, Q-4, R-2, S-3

6. Which of the following statements about the primary capital market is correct?
(A) It is a market where previously issued and existing securities are traded.
(B) It is the market where new securities are issued for the first time.
(C) It facilitates the efficient transfer of securities from one investor to another.
(D) It is a financial institution also commonly known as the stock exchange.

7. The term 'High-Powered Money' includes which of the following?
(A) Currency held by the public and demand deposits with commercial banks
(B) Net time deposits held by all commercial banks in the banking system
(C) Total savings deposits with Post Office savings organisations and banks
(D) Currency with public, vault cash, and bank deposits with Central Bank

8. Which of the following is NOT a function of the Central Bank?
(A) Accepting deposits from the general public
(B) Acting as the lender of last resort
(C) Custodian of foreign exchange reserves
(D) Acting as the banker to the government

9. The process by which commercial banks create credit is primarily based on:

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(C) Acting as a custodian of national foreign exchange reserves
(D) Discounting bills of exchange

88. A savings account deposit in a commercial bank is an example of a:
(A) A hybrid of time and demand deposits
(B) Time deposit
(C) Demand deposit, as it is chequable
(D) Derivative deposit

89. Under the Liquidity Adjustment Facility (LAF) corridor, the Repo Rate is typically the upper bound, and the Reverse Repo Rate is the lower bound. The rate for the Marginal Standing Facility (MSF) is generally placed:
(A) Above the Repo Rate
(B) Below the Reverse Repo Rate
(C) At the same level as the Repo Rate
(D) Between the Repo Rate and Reverse Repo Rate

90. Consider the following statements regarding the capital market:
1. It is a market for long-term funds.
2. It includes both the primary market and the secondary market.
3. Treasury bills are a major instrument of the capital market.
4. It facilitates capital formation in the economy.

Which of the above statement(s) is/are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 3 and 4

91. The difference between M3 and M1 represents:
(A) Currency in circulation
(B) 'Other deposits' with the RBI
(C) Savings deposits with post office saving banks
(D) Net time deposits with the banking system

92. The central bank's power to issue directives to commercial banks falls under its:
(A) Promotional function
(B) Supervisory and regulatory function
(C) Fiscal agent function
(D) Note-issuing function

93. Which of the following statements about credit creation is incorrect?
(A) The entire banking system can create credit, which is a multiple of the initial primary deposits.
(B) The capacity to create credit depends on the Cash Reserve Ratio.
(C) A single bank can lend an amount exactly equal to its primary deposits.
(D) Credit creation leads to a secondary expansion of deposits.

94. 'Rationing of credit' is a monetary policy instrument that involves:
(A) The central bank buying or selling securities in the market.
(B) Persuading banks to adhere to the central bank's policy.
(C) Changing the minimum reserve requirements for banks.
(D) The central bank fixing credit quotas for different business activities.

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95. Consider the following statements regarding the regulation of the capital market in India:
1. SEBI is the apex regulatory body for the Indian capital market.
2. The RBI directly regulates the functioning of stock exchanges.
3. SEBI's powers include regulating the business in stock exchanges.
4. The Ministry of Finance has no role in the capital market's regulatory framework.
5. SEBI registers and regulates the working of stockbrokers and sub-brokers.

Which of the above statement(s) is/are correct?
(A) 1, 2, and 4
(B) 2, 4, and 5
(C) 1, 3, and 5
(D) 1, 3, and 4

96. Which type of NBFC is principally engaged in providing finance for physical assets like automobiles, machinery, and equipment?
(A) Investment Company
(B) Asset Finance Company
(C) Loan Company
(D) Infrastructure Finance Company

97. A market that provides a platform for the trading of previously issued securities is known as the:

19. The money multiplier is determined by which of the following ratios?
(A) The Repo Rate and Reverse Repo Rate
(B) The Statutory Liquidity Ratio and the Bank Rate
(C) The currency-deposit ratio and the reserve-deposit ratio
(D) The market rate of interest and the inflation rate

20. Consider the following statements regarding the Central Bank's role as 'Banker to the Government':
1. It maintains the accounts of the central and state governments.
2. It makes and receives payments on behalf of the government.
3. It provides short-term credit to the government.
4. It manages the public debt of the country.
5. It offers commercial loans to public sector undertakings.

Which combination of the above statements is correct?
(A) 1, 2, and 5 only
(B) 2, 3, 4, and 5 only
(C) 1, 2, 3, and 4 only
(D) 1, 3, and 5 only

21. What is the primary purpose of credit creation by commercial banks?
(A) To increase the profitability of the central bank
(B) To manage the foreign exchange reserves of the country
(C) To expand the money supply and facilitate economic activity
(D) To directly control the inflation rate

22. The sale of government securities by the central bank in the open market will lead to:
(A) An increase in the cash reserves of commercial banks
(B) A decrease in the cash reserves of commercial banks
(C) An increase in the credit creation capacity of commercial banks
(D) A decrease in market interest rates

23. Which entity is the primary regulator for NBFCs in India?
(A) Securities and Exchange Board of India (SEBI)
(B) Ministry of Finance
(C) Insurance Regulatory and Development Authority (IRDAI)
(D) Reserve Bank of India (RBI)

24. A market for short-term funds, dealing in monetary assets whose period of maturity is up to one year, is known as:
(A) The Money Market
(B) The Capital Market
(C) The Foreign Exchange Market
(D) The Commodity Market

25. Arrange the following measures of money supply in descending order of their liquidity.
1. M1
2. M4
3. M3
4. M2

Which of the following represents the correct order?
(A) 1, 4, 3, 2
(B) 2, 3, 4, 1
(C) 1, 2, 3, 4
(D) 4, 3, 2, 1

26. Which function of the central bank gives it the power to control and regulate the banking system?
(A) Banker's bank and supervisor
(B) Issuer of currency
(C) Banker to the government
(D) Custodian of foreign exchange

27. Consider the following statements about the functions of commercial banks.
Statement I : Agency functions are a primary function of commercial banks.
Statement II : Accepting deposits is a secondary function of commercial banks.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

28. The 'Bank Rate' is the rate at which the central bank:
(A) Lends to commercial banks for meeting very short-term liquidity needs.

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48. A company that provides finance by making loans or advances but does not include an asset finance company is called a:
(A) Investment Company
(B) Loan Company
(C) Infrastructure Finance Company
(D) Mortgage Guarantee Company

49. Which of the following is NOT an instrument traded in the capital market?
(A) Shares
(B) Treasury Bills
(C) Debentures
(D) Bonds

50. The value of the money multiplier is inversely related to the:
(A) Legal Reserve Ratio (LRR)
(B) Amount of high-powered money
(C) Currency-deposit ratio
(D) Demand for loans

51. As the 'Banker's Bank', the central bank performs all the following functions ExCEPT:
(A) Holding cash reserves of commercial banks
(B) Supervising the functioning of commercial banks
(C) Providing long-term capital for industrial expansion
(D) Acting as a clearing house for inter-bank settlements

52. Read the following scenario and answer the question.
A business firm takes a loan from a bank by keeping its stock of goods as collateral. The bank sanctions the loan but does not give cash. Instead, it opens a deposit account in the firm's name and allows the firm to withdraw money from it. This process directly illustrates:
(A) The function of the lender of last resort
(B) Open market operations
(C) The working of moral suasion
(D) The process of credit creation

53. If the central bank wants to increase the money supply in the economy, it should:
(A) Increase the Bank Rate
(B) Sell government securities in the open market
(C) Buy government securities in the open market
(D) Increase the Cash Reserve Ratio

54. Which of the following statements about SEBI is incorrect?
(A) It has quasi-legislative, quasi-executive and quasi-judicial powers.
(B) Its primary objective is to protect the interests of investors in securities.
(C) It prohibits fraudulent and unfair trade practices relating to securities markets.
(D) It regulates the money market in India.

55. Match the measures of money supply in List-I with their components in List-II.
List I: (Measure)
P. M1
Q. M2
R. M3
S. M4
List II: (Component)
1. M3 + All deposits with post office savings banks
2. M1 + Net time deposits of the banking system
3. C + DD + OD
4. M1 + Savings deposits with Post Office saving banks
Codes:
(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-3, R-1, S-2

56. The management of public debt is a key function of the central bank performed in its capacity as:
(A) Banker to the government
(B) Controller of credit
(C) Custodian of foreign exchange
(D) Banker's bank

57. Which pair represents the primary functions of commercial banks?
(A) Providing locker facilities and underwriting securities
(B) Collecting cheques and discounting bills of exchange
(C) Accepting deposits and advancing loans
(D) Issuing traveller's cheques and managing portfolios

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(A) Banker to the government
(B) Custodian of foreign exchange reserves
(C) Controller of credit
(D) Issuer of currency

39. The difference between the total deposits created by a commercial bank and its initial primary deposit is known as:
(A) Cash reserves
(B) Statutory reserves
(C) Time deposits
(D) Derivative deposits

40. Consider the following monetary policy instruments:
1. Open Market Operations
2. Cash Reserve Ratio
3. Margin Requirements
4. Moral Suasion

Which of the above are considered quantitative instruments?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3
(D) 1, 3 and 4

41. Which of the following statements correctly distinguishes an NBFC from a bank?
(A) NBFCs can issue cheques drawn directly on their own bank accounts.
(B) NBFCs can accept both demand deposits and fixed time deposits.
(C) Deposits in NBFCs are insured by the DICGC up to a specific limit.
(D) NBFCs are not part of the payment and settlement system.

42. What does an Initial Public Offering (IPO) signify in the capital market?
(A) A company is listing and offering its shares to the public for the first time.
(B) A company is buying back its own shares from the market.
(C) An existing shareholder is selling a large block of shares.
(D) A company is issuing bonds to raise debt.

43. Which measure of money supply is also known as 'broad money'?
(A) M1
(B) M2
(C) M0 (Reserve Money)
(D) M3

44. Consider the following statements regarding central bank credit controls.
Statement I : The central bank uses selective credit controls to influence the total volume of credit in the economy.
Statement II : The central bank uses general credit controls to regulate the flow of credit to specific sectors.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

45. Consider the following components of money supply:
1. Currency notes and coins with the public (C)
2. Net demand deposits of banks (DD)
3. Other deposits with the RBI (OD)
4. Net time deposits of the banking system
5. Total deposits with Post Office savings organisations

Which combination represents the components of the M1 measure of money supply?
(A) 1, 2, and 4
(B) 1, 2, and 3
(C) 1, 3, and 5
(D) 2, 4, and 5

46. What is the most appropriate reason for commercial banks to hold a part of their deposits as cash reserves?
(A) To earn high interest from the central bank
(B) To speculate in the stock market
(C) To finance government expenditure
(D) To meet the day-to-day cash withdrawal requirements of depositors

47. The policy of differentiating between different types of loans and advances for the purpose of controlling credit is known as:
(A) Selective Credit Control
(B) Open Market Operations
(C) Bank Rate Policy
(D) Cash Reserve Ratio

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(A) The total amount of currency issued by the central bank
(B) The sale of government securities in the open market
(C) The primary deposits received from the public
(D) The amount of gold reserves held by the bank

10. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : An increase in the Repo Rate by the central bank makes borrowing by commercial banks more expensive.
Reason (R) : The Repo Rate is the rate at which the central bank borrows from commercial banks.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

11. A mutual fund is a type of:
(A) Commercial bank
(B) Central bank
(C) Credit rating agency
(D) Non-banking Financial Institution

12. Which of the following pairs is incorrectly matched?
(A) SEBI - Regulator of Capital Market
(B) Sensex - Money Market Index
(C) RBI - Regulator of Money Market
(D) IPO - Primary Market Instrument

13. The measure of money supply M2 is defined as:
(A) M1 + Net time deposits of the banking system
(B) M3 + All deposits with post office savings banks
(C) M1 + Savings deposits with Post Office saving banks
(D) Currency and coins with public + Demand deposits

14. Read the given statements regarding the central bank's clearing house function.
Statement I : The central bank acts as a clearing house for inter-bank transactions.
Statement II : This function eliminates the need for large cash transfers between commercial banks.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

15. Consider the following statements about the functions of commercial banks:
1. They act as a lender of last resort.
2. They provide overdraft facilities to customers.
3. They perform agency functions like collecting cheques.
4. They underwrite securities in the capital market.

Which of the above statement(s) is/are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 3 and 4
(D) 1, 2 and 4

16. What is the most likely consequence of a decrease in the Cash Reserve Ratio (CRR)?
(A) A decrease in the lending capacity of commercial banks.
(B) An increase in the lending capacity of commercial banks.
(C) No impact on the lending capacity of commercial banks.
(D) An increase in the cost of funds for commercial banks.

17. Which of the following statements about Non-banking Financial Institutions (NBFCs) is incorrect?
(A) They cannot accept demand deposits.
(B) They are a part of the payment and settlement system.
(C) They are registered under the Companies Act.
(D) Deposit insurance facility is not available for NBFC depositors.

18. The process of issuing new shares to the existing shareholders of a company is known as:
(A) Rights Issue
(B) Initial Public Offering (IPO)
(C) Follow-on Public Offer (FPO)
(D) Private Placement

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58. The 'Marginal Standing Facility (MSF)' is a window for banks to borrow from the central bank under which of the following conditions?
(A) In an emergency situation when inter-bank liquidity dries up completely
(B) For long-term capital requirements
(C) During normal market hours at the repo rate
(D) To finance their international trade operations

59. A key difference between a Core Investment Company (CIC) and other NBFCs is that a CIC:
(A) Can accept deposits from the public.
(B) Primarily deals in agricultural loans.
(C) Holds not less than 90% of its net assets in the form of investment in group companies.
(D) Is not regulated by the RBI.

60. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : The capital market channelizes savings into long-term productive investments.
Reason (R) : It deals with financial assets having a maturity period of more than one year.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

61. 'Other Deposits with the RBI' (OD), a component of M1, includes deposits held by:
(A) Deposits of the general public and households with the central bank.
(B) Cash reserves of all commercial banks maintained with the central bank.
(C) Deposits of the Central and State Governments held with the central bank.
(D) Deposits of international financial institutions like the IMF and World Bank.

62. Consider the following statements regarding the central bank's monopoly on note issue.
Statement I : The central bank has a monopoly on note issue.
Statement II : This monopoly ensures uniformity in the currency and helps the central bank to control the money supply.
(A) Statement I is true, and Statement II is a correct explanation for it.
(B) Statement I is true, but Statement II is not a correct explanation for it.
(C) Statement I is false, but Statement II is true.
(D) Both Statement I and Statement II are false.

63. The ability of a commercial bank to create credit is inversely related to:
(A) The cash reserve ratio
(B) The amount of primary deposits
(C) The demand for loans from the public
(D) The bank's efficiency in operations

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64. During periods of inflation, what is the most appropriate monetary policy stance for a central bank?
(A) Reduce the repo rate and CRR
(B) Purchase government securities from the open market
(C) Reduce the Statutory Liquidity Ratio
(D) Increase the repo rate and CRR

65. Consider the following functions:
1. Regulating stock exchanges and any other securities markets.
2. Prohibiting insider trading in securities.
3. Conducting monetary policy operations.
4. Promoting investors' education and training of intermediaries.

Which of the above functions are correctly associated with SEBI?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 3 and 4

66. Which one of the following is not a component of High-Powered Money (H)?
(A) Demand deposits held by the public (DD)
(B) Currency held by the public (C)
(C) Cash reserves of commercial banks (R)
(D) 'Other deposits' with the RBI held by banks

67. What is the most significant implication of the central bank's function as a 'clearing house'?
(A) It facilitates the purchase and sale of foreign currency for trade purposes.
(B) It allows the government to borrow funds directly from the central bank.
(C) It provides a formal platform for trading in various government securities.

(D) It helps in the settlement of mutual claims of commercial banks, economizing the use of cash.

68. An overdraft facility provided by a commercial bank is a type of:
(A) Time deposit
(B) Demand deposit
(C) Agency function
(D) Loan or advance

69. The main objective of a contractionary monetary policy is to:
(A) Encourage borrowing and investment
(B) Increase the availability of credit
(C) Reduce the money supply and curb inflation
(D) Promote economic growth

70. Consider the following statements about Non-banking Financial Institutions (NBFCs):
1. NBFCs can issue demand drafts.
2. NBFCs cannot accept demand deposits.
3. Not all NBFCs can accept public deposits.
4. NBFCs are registered under the Banking Regulation Act, 1949.
5. They can engage in the business of acquisition of securities.

Which of the above statement(s) is/are correct?
(A) 1, 2, and 4
(B) 2, 3, and 5
(C) 1, 4, and 5
(D) 2, 4, and 5

71. A stock market where share prices are falling or are expected to fall is called a:
(A) Bull market
(B) Grey market
(C) Blue-chip market
(D) Bear market

72. M4 is a broader concept of money supply than M3 because it includes:
(A) Net time deposits of commercial banks
(B) All deposits with post office savings banks (excluding National Savings Certificates)
(C) 'Other deposits' with the RBI
(D) Currency held by the public

73. Which of the following is a qualitative or selective credit control tool?
(A) Bank Rate
(B) Open Market Operations
(C) Margin requirements
(D) Cash Reserve Ratio

74. If the required reserve ratio is 20%, what is the maximum amount of money that can be created from an initial deposit of ₹1,000?
(A) ₹5,000
(B) ₹200
(C) ₹1,000
(D) ₹4,000

75. Arrange the following events in the Indian banking and financial sector in chronological order.
1. Nationalization of 14 major commercial banks.
2. Establishment of Securities and Exchange Board of India (SEBI).
3. Establishment of Reserve Bank of India (RBI).
4. Introduction of Marginal Standing Facility (MSF).

Which of the following represents the correct sequence?
(A) 3, 1, 2, 4
(B) 1, 3, 2, 4
(C) 3, 2, 1, 4
(D) 2, 3, 1, 4

76. The rate at which the central bank absorbs liquidity from commercial banks against the collateral of eligible government securities is known as the:
(A) Repo Rate
(B) Reverse Repo Rate
(C) Bank Rate
(D) Lending Rate

77. Which of the following is NOT a Non-banking Financial Institution?
(A) Life Insurance Corporation (LIC)
(B) Small Industries Development Bank of India (SIDBI)
(C) State Bank of India (SBI)
(D) Unit Trust of India (UTI)

78. The term 'insider trading' in the capital market refers to:
(A) Trading of securities by a person who has access to non-public, price-sensitive

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information.
(B) Trading of securities by government officials.
(C) Trading based on publicly available information.
(D) The process of underwriting new securities.

79. The monetary base of an economy, which consists of currency in circulation and commercial bank reserves, is also known as:
(A) Narrow money
(B) Broad money
(C) High-powered money
(D) Fiat money

80. Match the monetary policy instruments in List-I with their nature or function in List-II.
List I: (Instrument)
P. CRR
Q. SLR
R. OMO
S. Margin Requirement
List II: (Nature/Function)
1. Purchase and sale of government securities
2. Minimum fraction of total deposits to be kept with the central bank
3. Difference between the market value of the security and the loan value
4. Minimum fraction of net demand and time liabilities to be maintained as liquid assets
Codes:
(A) P-1, Q-3, R-2, S-4
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-1, R-4, S-3

81. When the central bank acts as a 'lender of last resort', it provides a safety valve for the banking system by:
(A) Guaranteeing profits for all commercial banks
(B) Preventing solvent but temporarily illiquid banks from failing
(C) Offering lower interest rates than any other lender
(D) Bailing out banks that are fundamentally insolvent

82. The discounting of bills of exchange by a commercial bank is a form of:
(A) Advancing a loan
(B) Accepting deposits
(C) Agency service
(D) General utility service

83. What is the effect of an increase in the Statutory Liquidity Ratio (SLR) on the economy?
(A) It increases the credit creation capacity of commercial banks.
(B) It leads to a fall in interest rates.
(C) It reduces the funds available for lending by commercial banks.
(D) It has no impact on the money supply.

84. The primary objective of establishing SEBI was to:
(A) Control the credit creation by commercial banks.
(B) Manage the country's foreign exchange reserves.
(C) Formulate the fiscal policy of the government.
(D) Protect the interests of investors and regulate the securities market.

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85. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : All financial institutions are banking institutions.
Reason (R) : Banking institutions are those that can both accept deposits and grant loans, and are part of the payment system.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

86. The concept of 'money multiplier' explains the relationship between:
(A) The policy rates and the inflation rate
(B) High-powered money and the total money supply
(C) The CRR and the SLR
(D) The primary market and the secondary market

87. Which of the following is a key function of a central bank but not of a commercial bank?
(A) Accepting deposits
(B) Advancing loans

(B) Rediscounts the first-class bills of exchange and government securities held by commercial banks.
(C) Borrows funds from the commercial banks to absorb excess market liquidity.
(D) Lends to the government for financing various long-term development projects.

29. An NBFC whose principal business is the acquisition of shares and securities is classified as:
(A) An Asset Finance Company (AFC)
(B) A Loan Company (LC)
(C) An Investment Company (IC)
(D) A Core Investment Company (CIC)

30. Match the capital market terms in List-I with their descriptions in List-II.
List I: (Term)
P. Debenture
Q. Equity Share
R. Bonus Share
S. Bull Market
List II: (Description)
1. Represents ownership in a company
2. A debt instrument issued by a company
3. A period of rising stock prices
4. Shares issued to existing shareholders free of cost
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

31. The formula $M_3 = M_1 + x$. What does 'x' represent?
(A) Net time deposits of the commercial banking system
(B) Savings deposits with Post Office saving banks
(C) All deposits with Post Office savings banks
(D) National Savings Certificates

32. The 'lender of last resort' function implies that the central bank:
(A) Provides unlimited credit to the central government for budgetary support.
(B) Provides liquidity to banks when they cannot obtain it from other sources.
(C) Is the final legal authority for settling all consumer banking disputes.
(D) Acts as the primary lender for all large-scale national infrastructure projects.

33. Which of the following is an example of a secondary function of a commercial bank?
(A) Accepting demand deposits
(B) Providing locker facilities
(C) Advancing loans
(D) Credit creation

34. A qualitative instrument of monetary policy that involves persuading commercial banks to follow the central bank's policy is known as:
(A) Moral Suasion
(B) Open Market Operations
(C) Bank Rate Policy
(D) Rationing of Credit

35. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : NBFCs play a crucial role in financial inclusion by catering to the credit needs of the unorganized sector.
Reason (R) : NBFCs have a wide reach and flexible operational procedures compared to traditional banks.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

36. The regulatory body for the securities and commodity market in India is:
(A) RBI
(B) PFRDA
(C) IRDAI
(D) SEBI

37. The total stock of money in circulation among the public at a particular point of time is called:
(A) Flow of money
(B) Velocity of money
(C) Money supply
(D) Demand for money

38. The central bank's function of maintaining the external value of the domestic currency is part of its role as:

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(A) Primary Market
(B) Secondary Market
(C) Money Market
(D) Commodity Market

98. High-Powered Money (H) is the liability of:
(A) The government and the central bank
(B) The entire commercial banking system
(C) The non-banking financial institutions
(D) The corporate sector

99. The function of the central bank to maintain stability in the general price level is known as:
(A) Development function
(B) Custodian function
(C) Controller of credit
(D) Supervisory function

100. Read the given statements regarding commercial bank balance sheets.
Statement I : A commercial bank's balance sheet must always balance, with assets equal to liabilities.
Statement II : For a commercial bank, deposits from customers are considered an asset.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

101. An expansionary monetary policy is also known as:
(A) Tight money policy
(B) Dear money policy
(C) Neutral money policy
(D) Cheap money policy

102. An NBFC that has at least 75% of its total assets deployed in infrastructure loans is categorized as an:
(A) Asset Finance Company
(B) Infrastructure Finance Company
(C) Core Investment Company
(D) Loan Company

103. The main function of the secondary market is to provide:
(A) Capital for new companies
(B) Long-term loans to investors
(C) Liquidity to existing securities
(D) Regulation for the primary market

104. Which of the following is NOT a liability for a commercial bank?
(A) Demand Deposits
(B) Time Deposits
(C) Borrowings from the central bank
(D) Loans and Advances given

105. Match the financial institutions in List-I with their primary roles in List-II.
List I: (Financial Institution)
P. Central Bank
Q. Commercial Bank
R. SEBI
S. NBFC
List II: (Primary Role)
1. Regulation of securities market
2. Credit creation for the public
3. Implementation of monetary policy
4. Providing specialized financial services
Codes:
(A) P-1, Q-4, R-2, S-3
(B) P-3, Q-2, R-1, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-1, R-4, S-2

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106. In the money supply components, what does 'C' in M1 = C + DD + OD stand for?
(A) Currency (notes and coins) held by the public
(B) Cash reserves of commercial banks
(C) Credit created by commercial banks
(D) Capital of the banking system

107. The central bank controls credit through quantitative and qualitative measures. Which of the following pairs is correctly matched?
(A) Bank Rate - Qualitative Measure
(B) Moral Suasion - Quantitative Measure
(C) Open Market Operations - Quantitative Measure
(D) Margin Requirements - Quantitative Measure

108. An increase in public preference for holding currency rather than deposits will:
(A) Decrease the money multiplier and money supply
(B) Increase the money multiplier and money supply
(C) Have no effect on the money multiplier
(D) Increase the money multiplier but decrease

149. The central bank's supervisory role over commercial banks includes:
(A) Providing day-to-day operational guidance.
(B) Deciding the loan portfolio for each bank.
(C) Licensing, inspection, and control over mergers and amalgamations.
(D) Fixing the salaries of bank chairpersons.

150. A fixed deposit (FD) account in a commercial bank is an example of a:
(A) Time deposit
(B) Demand deposit
(C) No-frills account
(D) Current account

151. The transmission of monetary policy refers to the process through which:
(A) The central bank communicates its decisions to the public.
(B) Commercial banks transmit funds to each other.
(C) The government's fiscal policy is implemented by banks.
(D) Policy actions taken by the central bank affect aggregate demand and inflation.

152. All NBFCs whose financial assets are 50% or more of their total assets and income from financial assets is 50% or more of the gross income are required to be registered with:
(A) Reserve Bank of India (RBI)
(B) SEBI
(C) Ministry of Corporate Affairs
(D) PFRDA

153. What is the primary function of a stock exchange?
(A) To issue new securities on behalf of companies
(B) To regulate the monetary policy of the country
(C) To provide a ready and continuous market for the trading of existing securities
(D) To provide long-term loans for industrial development

154. If the money multiplier is 4, what is the Legal Reserve Ratio (LRR)?
(A) 40%
(B) 4%
(C) 20%
(D) 25%

155. Match the central bank functions in List-I with their descriptions in List-II.
List I: (Central Bank Function)
P. Issuer of Currency
Q. Lender of Last Resort
R. Clearing House
S. Controller of Credit
List II: (Description)
1. Provides liquidity to solvent banks facing a crisis
2. Regulates money supply to achieve economic goals
3. Monopoly on printing notes
4. Settles inter-bank claims
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-2, R-4, S-1

156. A key role of commercial banks is to act as an intermediary between:
(A) The government and the central bank
(B) Savers and borrowers
(C) Exporters and importers
(D) The primary market and the secondary market

157. During a recession, the central bank would most likely adopt an 'easy money policy' which involves:
(A) Increasing the CRR and SLR
(B) Selling government securities
(C) Lowering the policy rates
(D) Increasing margin requirements

158. Which of the following statements about SEBI's regulatory powers is correct?
(A) SEBI's regulations do not apply to mutual funds.
(B) SEBI can only make recommendations, which are not binding on market participants.
(C) SEBI has the power to impose penalties and suspend trading.
(D) SEBI's jurisdiction is limited to the primary market only.

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security at a specified price.
(C) Obligation to buy a security at a specified price.
(D) Obligation to sell a security at a specified price.

119. The components of money supply are based on which two key characteristics of monetary assets?
(A) Profitability and risk
(B) Medium of exchange and unit of account
(C) Durability and portability
(D) Liquidity and store of value

120. Consider the following functions:
1. Acting as a banker to commercial banks.
2. Formulating and implementing fiscal policy.
3. Managing the country's foreign exchange reserves.
4. Providing direct lending to corporations and individuals.
5. Issuing the nation's currency.

Which of the above are performed by a Central Bank?
(A) 1, 2, and 3
(B) 2, 4, and 5
(C) 1, 3, and 5
(D) 1, 4, and 5

121. The role of commercial banks in economic development includes all of the following ExCEPT:
(A) Capital formation
(B) Encouraging savings
(C) Controlling inflation through monetary policy
(D) Financing trade and industry

122. Direct Action, as a qualitative credit control measure, involves:
(A) The central bank refusing to rediscount bills for a bank that is not adhering to its policies.
(B) Persuading banks to follow a certain policy.
(C) Buying securities from the open market.
(D) Setting a maximum limit for loans to a particular sector.

123. Which of the following is NOT a prerequisite for an NBFC to be registered with the RBI?
(A) It must be a company registered under the Companies Act.
(B) It must have a minimum Net Owned Fund (NOF).
(C) Its principal business must be financial activity.
(D) It must have at least one branch in a rural area.

124. The official index for the Bombay Stock Exchange (BSE) is the:
(A) Nifty 50
(B) Bankex
(C) Dow Jones
(D) S&P BSE Sensex

125. Arrange the following steps of credit creation by the banking system in the correct sequence.
1. Banks keep a fraction of the deposit as a legal reserve.
2. A new primary deposit is made in a bank.
3. The process continues until secondary deposits become zero.
4. The remaining amount is lent out, which again comes back to the banking system as a derivative deposit.

Which of the following represents the correct sequence?
(A) 2, 4, 1, 3
(B) 1, 2, 4, 3
(C) 2, 1, 4, 3
(D) 4, 2, 1, 3

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126. Read the given statements regarding measures of money supply.
Statement I : M1 and M2 are known as narrow money.
Statement II : M3 and M4 are known as broad money.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

127. The function of the Central Bank as the 'Banker, Agent and Advisor to the Government' does NOT include:
(A) Providing deposit insurance to the general public
(B) Maintaining government accounts
(C) Managing public debt
(D) Advising the government on financial and monetary matters

(A) Decreasing the Repo Rate
(B) Decreasing the Cash Reserve Ratio
(C) Increasing the Bank Rate
(D) Purchasing securities in the open market

190. Consider the following instruments:
1. Shares
2. Debentures
3. Commercial Paper
4. Certificate of Deposit

Which of the above are primarily traded in the Capital Market?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3
(D) 2, 3 and 4

191. The primary liability of a commercial bank is its:
(A) Deposits
(B) Investments
(C) Loans and advances
(D) Cash in hand

192. A tight monetary policy is characterized by:
(A) A reduction in policy interest rates
(B) Actions to reduce the money supply and increase the cost of credit
(C) An increase in the availability of credit
(D) A neutral stance on inflation

193. Which of the following statements about NBFCs is correct?
(A) All NBFCs - Can accept demand deposits
(B) NBFC-MFI (Micro Finance Institution) - Provides credit to low-income households
(C) Deposit-taking NBFCs - Regulated by both RBI and SEBI
(D) NBFCs - Part of the payment and settlement system

194. The regulatory framework of SEBI aims to ensure that the capital market is:
(A) Fair, transparent, and efficient
(B) Profitable for all investors
(C) Controlled by the government
(D) Free from all risks

195. Consider the following components of the monetary base (High-Powered Money):
1. Currency in circulation with the public.
2. Demand deposits of the public with commercial banks.
3. Vault cash of commercial banks.
4. Deposits of commercial banks with the central bank.
5. Net time deposits with commercial banks.

Which combination of the above statement(s) is correct?
(A) 1, 2, and 3
(B) 2, 3, and 5
(C) 1, 3, and 4
(D) 1, 2, and 5

196. The central bank's function of controlling money supply and credit is also known as:
(A) The developmental function
(B) The regulatory function
(C) The promotional function
(D) The agency function

197. The difference between the amount of a loan and the market value of the security pledged against it is called:
(A) Interest
(B) Collateral
(C) Margin
(D) Discount

198. Which of the following is NOT a function of a commercial bank?
(A) Issuing currency notes
(B) Providing portfolio management services
(C) Acting as a trustee and executor
(D) Underwriting securities

199. What is the primary difference between quantitative and qualitative instruments of monetary policy?
(A) Quantitative tools are used in developing countries, while qualitative tools are used in developed countries.
(B) Quantitative tools regulate interest rates, while qualitative tools regulate exchange rates.
(C) Quantitative tools are short-term, while qualitative tools are long-term.
(D) Quantitative tools affect all sectors, while qualitative tools are sector-specific.

200. 'Underwriting' is an activity performed in the:
(A) Primary Market, by financial institutions who guarantee the sale of new issues

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138. The value of the money multiplier (m) can be expressed as 1/LRR, where LRR stands for:
(A) Legal Reserve Ratio
(B) Loan Recovery Rate
(C) Liquidity Risk Ratio
(D) Lending Rate Regulation

139. Who is the custodian of the nation's gold and foreign currency reserves?
(A) The Ministry of Finance
(B) The State Bank of India
(C) The Securities and Exchange Board
(D) The Central Bank

140. Consider the following statements regarding the monetary policy framework:
1. The Repo rate is the key policy rate.
2. The primary objective is to maintain price stability.
3. The policy decisions are made by the government alone.
4. It aims to achieve the objective of growth.
Which of the above statement(s) is/are correct?
(A) 1 and 3 only
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 2, 3 and 4

141. The role of a commercial bank in mobilizing savings refers to its ability to:
(A) Create credit out of thin air
(B) Print new currency notes
(C) Attract idle funds from the public by offering various deposit schemes
(D) Regulate the stock market

142. A 'dear money' policy implies:
(A) Lowering of interest rates
(B) Expansion of money supply
(C) Easing of lending norms
(D) Contraction of credit

143. Which of the following is NOT a function of the primary market?
(A) Providing liquidity
(B) Origination
(C) Underwriting
(D) Distribution

144. 'Net Demand and Time Liabilities' (NDTL) of a bank is a crucial factor in determining:
(A) The bank's profitability
(B) The amount of reserves to be maintained under CRR and SLR
(C) The number of branches a bank can open
(D) The salaries of the bank employees

145. Consider the following instruments of monetary policy:
1. Bank Rate
2. Margin Requirements
3. Open Market Operations
4. Moral Suasion
5. Rationing of Credit
Which of the above are qualitative (selective) instruments?
(A) 1, 3, and 5
(B) 2, 4, and 5
(C) 1, 2, and 3
(D) 2, 3, and 4

146. A systemically important NBFC is one whose:
(A) Asset size is above a certain threshold, posing potential systemic risk.
(B) Net profit is above a certain threshold.
(C) Number of branches exceeds a certain limit.
(D) Operations are exclusively in foreign countries.

147. A 'put option' in the capital market gives the holder the:
(A) Obligation to buy a security at a specified price.
(B) Obligation to sell a security at a specified price.
(C) Right, but not the obligation, to sell a security at a specified price.
(D) Right, but not the obligation, to buy a security at a specified price.

148. Read the given statements regarding high-powered money.
Statement I : High-powered money is produced only by the monetary authorities of the country.
Statement II : Total money supply is equal to the high-powered money.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

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by increasing the borrower's contribution.
(D) To lower the interest rate on such loans.

170. Consider the following regarding functions of a capital market:
1. Mobilization of savings for investment.
2. Facilitating short-term borrowing for working capital needs.
3. Determination of capital or security prices.
4. Facilitating the transfer of ownership of securities.
5. Implementing overnight liquidity management for banks.

Which of the above statement(s) is/are correct?
(A) 1, 2, and 3
(B) 2, 4, and 5
(C) 1, 3, and 4
(D) 1, 2, and 5

171. Which of the following would NOT be included in the 'liabilities' side of an NBFC's balance sheet?
(A) Public Deposits
(B) Debentures
(C) Bank Borrowings
(D) Loans and Advances given

172. The term 'dematerialization' of securities refers to:
(A) The physical destruction of old share certificates.
(B) The process of converting physical securities into an electronic format.
(C) The delisting of a security from a stock exchange.
(D) The issuance of new securities in paper form.

173. The ratio of total money supply (M3) to the stock of high-powered money (H) is known as the:
(A) Reserve ratio
(B) Currency-deposit ratio
(C) Money multiplier
(D) Velocity of circulation

174. Read the given statements regarding the central bank and the cost of credit.
Statement I : The central bank is the apex institution of a country's monetary and financial system.
Statement II : The central bank's policies directly influence the cost and availability of credit in the economy.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true but Statement II is false.
(D) Statement I is false but Statement II is true.

175. Arrange the following developments related to capital market regulation in India in chronological order.
1. Repeal of the Capital Issues (Control) Act, 1947.
2. Establishment of SEBI as a statutory body.
3. Introduction of screen-based trading.
4. Formation of the National Stock Exchange (NSE).

Which of the following represents the correct sequence?
(A) 2, 1, 4, 3
(B) 1, 2, 3, 4
(C) 2, 4, 1, 3
(D) 4, 2, 1, 3

176. What is the main purpose of Open Market Operations (OMO)?
(A) To directly set the interest rates for consumer loans.
(B) To manage liquidity in the banking system by buying or selling government securities.
(C) To adjust the rupee's exchange rate against the dollar.
(D) To provide emergency funds to individual banks.

177. Which of the following is a key distinction of NBFC-P2P (Peer-to-Peer Lending Platform)?
(A) It lends its own funds to borrowers.
(B) It provides an online platform to match lenders with borrowers.
(C) It accepts deposits from the public.
(D) It guarantees the repayment of loans.

178. A 'Gilt-edged' security in the capital market refers to:
(A) A high-quality, low-risk security issued by the government.
(B) A share of a highly profitable 'blue-chip' company.
(C) A security issued by a multinational corporation.
(D) A high-risk security offering high returns.

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159. Which measure of money supply includes the total of all deposits of post office savings organizations?
(A) M4
(B) M1
(C) M2
(D) M3

160. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : The central bank is called the 'apex' bank of the country.
Reason (R) : It has the authority to supervise, regulate, and control the activities of all commercial banks.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

161. An important agency function performed by commercial banks for their customers is:
(A) Issuing letters of credit
(B) Making payments such as insurance premiums and collecting dividends
(C) Providing overdraft facilities
(D) Accepting fixed deposits

162. The 'Repo Rate' is so named because it is linked to a:
(A) Repurchase agreement
(B) Reporting agreement
(C) Reserve policy
(D) Recurring payment

163. The main difference between a mutual fund and an investment company NBFC is that a mutual fund:
(A) Is not regulated by any specific state or national authority.
(B) Can accept demand deposits directly from the general public.
(C) Pools money from investors to invest in securities, but is legally structured as a trust.
(D) Deals exclusively in real estate assets and physical commodity trading.

164. Securities that represent an ownership interest in a corporation are known as:
(A) Debentures
(B) Bonds
(C) Commercial Papers
(D) Equity Shares

165. Consider the following statements about the role of commercial banks in economic development:
1. They mobilize small, scattered savings of the community.
2. They provide finance to different sectors of the economy.
3. They help in the implementation of monetary policy.
4. They directly formulate the government's fiscal budget.

Which of the above statement(s) is/are correct?
(A) 1, 2 and 4
(B) 1, 3 and 4
(C) 2, 3 and 4
(D) 1, 2 and 3

166. M1 is also referred to as:
(A) Broad money
(B) Transaction money
(C) Reserve money
(D) Future money

167. Which function of the central bank helps in preventing bank runs and financial panics?
(A) Issuer of currency
(B) Banker to the government
(C) Manager of public debt
(D) Lender of last resort

168. A term loan provided by a commercial bank is typically characterized by:
(A) A fixed maturity period and a schedule of periodic repayments.
(B) Repayment in a lump sum at the end of the period.
(C) The ability to withdraw and repay funds any number of times within a limit.
(D) Being repayable on demand by the bank.

169. What is the intended effect of increasing 'margin requirements' on loans against securities?
(A) To increase the volume of credit for speculative activities.
(B) To encourage more borrowing against securities.
(C) To discourage borrowing against securities

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the money supply

109. What is the most appropriate purpose of the Statutory Liquidity Ratio (SLR)?
(A) To provide necessary funds for the central bank's daily administrative operations.
(B) To directly control the interest rate on short-term loans to the public.
(C) To ensure the solvency of commercial banks and provide a captive market for government securities.
(D) To manage the foreign exchange rate to maintain international trade balance.

110. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : The secondary market is crucial for the successful functioning of the primary market.
Reason (R) : The secondary market provides liquidity and marketability to securities issued in the primary market, making them more attractive to investors.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

111. Consider the following statement about NBFCs: All NBFCs are allowed to accept deposits from the public, with certain restrictions. This statement is:
(A) False, as only specific categories of NBFCs are permitted to accept public deposits
(B) True for all NBFCs
(C) True only for government-owned NBFCs
(D) False, as no NBFC can accept deposits from the public

112. The process of a company offering shares to a select group of persons or institutions rather than to the general public is known as:
(A) Initial Public Offering (IPO)
(B) Private Placement
(C) Offer for Sale (OFS)
(D) Rights Issue

113. The aggregate monetary resources of the country are best represented by:
(A) M1
(B) M3
(C) M2
(D) M0

114. The central bank's role as 'custodian of cash reserves' of commercial banks facilitates which of its other major functions?
(A) Controller of credit
(B) Issuer of currency
(C) Banker to the government
(D) Manager of public debt

115. Consider the following statements regarding the structure of commercial banking in India:
1. Public Sector Banks are those where the majority stake is held by the government.
2. Private Sector Banks are owned and managed by private individuals.
3. Foreign Banks are those incorporated abroad but operating through branches in India.
4. Regional Rural Banks operate only in urban and metropolitan areas.

Which of the above statement(s) is/are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 3
(D) 2, 3, and 4

116. A situation where monetary policy becomes ineffective because the interest rate has fallen to a very low level, and people prefer to hold cash, is known as:
(A) A debt trap
(B) An inflation spiral
(C) A stagflation
(D) A liquidity trap

117. An NBFC that provides guarantees for mortgage-backed securities is known as a:
(A) Asset Reconstruction Company
(B) Peer-to-Peer Lending Platform
(C) Mortgage Guarantee Company
(D) Account Aggregator

118. A 'call option' in the capital market gives the holder the:
(A) Right, but not the obligation, to sell a security at a specified price.
(B) Right, but not the obligation, to buy a

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179. If the public decides to hold more currency and less in demand deposits, ceteris paribus, the size of the money supply will:
(A) Increase
(B) Remain unchanged
(C) Decrease
(D) Become more volatile

180. Match the market types in List-I with their characteristic features in List-II.
List I: (Market Type)
P. Primary Market
Q. Secondary Market
R. Money Market
S. Capital Market
List II: (Characteristic Feature)
1. Market for short-term funds
2. Market for new issues of securities
3. Market for long-term funds
4. Market for existing securities
Codes:
(A) P-1, Q-3, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-4, R-3, S-1
(D) P-2, Q-4, R-1, S-3

181. Which action by the central bank constitutes a 'qualitative' control of credit?
(A) Reducing the Cash Reserve Ratio (CRR).
(B) Buying government bonds in the open market.
(C) Issuing a directive to banks to not lend for speculative hoarding of commodities.
(D) Increasing the Bank Rate.

182. A current account in a commercial bank is most suitable for:
(A) Salaried individuals for saving purposes.
(B) Businessmen and firms who have a high volume of transactions.
(C) Pensioners to receive their monthly pension.
(D) Minors to learn banking habits.

183. The credit creation capacity of the banking system is given by the formula: Initial Deposits x (1/LRR). If the initial deposit is ₹2,000 and the LRR is 10%, the total credit created will be:
(A) ₹20,000
(B) ₹2,000
(C) ₹18,000
(D) ₹22,000

184. The 'monetary policy transmission mechanism' can be hampered by:
(A) High levels of government spending.
(B) High liquidity in the banking system.
(C) Flexible exchange rates.
(D) The presence of a large informal financial sector.

185. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : The Central Bank acts as a 'clearing house' for commercial banks.
Reason (R) : It is convenient for commercial banks to keep their cash reserves with the Central Bank.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

186. What is the main purpose of an NBFC known as an 'Account Aggregator'?
(A) To collect and provide a user's financial information from various entities with their consent.
(B) To provide loans to individuals and businesses.
(C) To aggregate bad loans from banks and reconstruct them.
(D) To provide a platform for trading in aggregated commodities.

187. The legal document that contains all details about a company and its public offering, which must be filed with SEBI, is called a:
(A) Balance Sheet
(B) Memorandum of Association
(C) Certificate of Incorporation
(D) Prospectus

188. Which component of the money supply is NOT included in M1?
(A) Net time deposits with commercial banks
(B) Currency and coins held by the public
(C) Demand deposits with commercial banks
(D) Other deposits with the RBI

189. A central bank can increase the cost of credit in an economy by:

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128. From the perspective of a commercial bank, which of the following is an asset?
(A) Bills discounted
(B) Capital and reserves
(C) Demand deposits
(D) Borrowings from RBI

129. If the central bank wants to absorb excess liquidity from the market, it can use the instrument of:
(A) Reverse Repo auction
(B) Repo auction
(C) Reducing the CRR
(D) Reducing the Bank Rate

130. Match the capital market instruments in List-I with their characteristics in List-II.
List I: (Capital Market Instrument)
P. Equity Share
Q. Preference Share
R. Debenture
S. Bond
List II: (Characteristic)
1. Acknowledgment of debt, usually secured
2. Ownership capital with voting rights
3. Acknowledgment of debt, often issued by government
4. Hybrid security with features of both equity and debt
Codes:
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-4, S-1

131. The difference between M2 and M1 is:
(A) Net time deposits with the banking system
(B) All deposits with post office savings banks
(C) Savings deposits with Post Office saving banks
(D) 'Other deposits' with the RBI

132. The process of a central bank managing a country's currency, money supply, and interest rates to achieve macroeconomic objectives is known as:
(A) Fiscal Policy
(B) Commercial Policy
(C) Industrial Policy
(D) Monetary Policy

133. Which of the following is the best description of a 'cash credit' facility from a commercial bank?
(A) A loan given against the mortgage of property.
(B) Discounting of short-term negotiable instruments.
(C) A facility allowing a borrower to withdraw money up to a specified limit against the security of current assets.
(D) A lump-sum loan given for a fixed period.

134. Which monetary policy tool directly impacts the inter-bank lending rate and is used for overnight liquidity management?
(A) Bank Rate
(B) Open Market Operations
(C) Liquidity Adjustment Facility (LAF)
(D) Statutory Liquidity Ratio (SLR)

135. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : The secondary market does not contribute to capital formation directly.
Reason (R) : In the secondary market, the transaction involves the transfer of existing securities from one owner to another, and the company whose shares are traded does not receive any funds.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

136. Which type of NBFC specializes in the business of acquiring financial assets or receivables from other institutions?
(A) Asset Reconstruction Company (ARC)
(B) Peer-to-Peer Lending Platform
(C) Investment and Credit Company
(D) Mortgage Guarantee Company

137. Which of the following is an example of a financial derivative traded in the capital market?
(A) Equity Share
(B) Debenture
(C) Futures and Options
(D) Government Bond

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(B) Secondary Market, by brokers
(C) Money Market, by the central bank
(D) Foreign Exchange Market, by authorized dealers

201. Which of the following financial institutions can issue cheques drawn on itself?
(A) A Non-banking Financial Company (NBFC)
(B) An Asset Reconstruction Company (ARC)
(C) A Mutual Fund
(D) A Commercial Bank

202. The total value of all shares of a company traded on the stock market is known as its:
(A) Market capitalization
(B) Book value
(C) Face value
(D) Liquidation value

203. The term 'fiat money' refers to money that is:
(A) Backed by a physical commodity like gold.
(B) In the form of deposits in commercial banks.
(C) Issued by the order or authority of the government.
(D) Used for international transactions only.

204. The legal requirement for commercial banks to maintain a certain percentage of their assets in the form of gold, cash, or approved securities is called:
(A) Cash Reserve Ratio (CRR)
(B) Repo Rate
(C) Bank Rate
(D) Statutory Liquidity Ratio (SLR)

205. Match the regulatory bodies in List-I with their areas of regulation in List-II.
List I: (Regulatory Body)
P. RBI
Q. SEBI
R. IRDAI
S. PFRDA
List II: (Area of Regulation)
1. Insurance Sector
2. Pension Sector
3. Banking and Monetary System
4. Securities and Capital Market
Codes:
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

206. In the context of credit creation, the entire banking system is treated as a single unit because:
(A) All banks are owned by the government.
(B) All banks have the same interest rate.
(C) All banks are branches of the central bank.
(D) The deposits that flow out of one bank are received as deposits by some other bank.

207. A 'cheap money' policy is designed to:
(A) Stimulate economic activity by making credit cheaper and more available.
(B) Curb inflation by making credit costlier.
(C) Stabilize the foreign exchange rate.
(D) Increase government revenue from taxes.

208. Which of the following is an example of an NBFC that is not required to be registered with the RBI?
(A) An Investment Company with assets over Rs. 500 crore.
(B) A Nidhi company.
(C) An Asset Finance Company.
(D) A Peer-to-Peer Lending Platform.

209. A stockbroker in the capital market acts as:
(A) An issuer of securities.
(B) An intermediary who buys and sells securities on behalf of investors.
(C) A regulator of market practices.
(D) A guarantor for new public issues.

210. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : M1 is the most liquid measure of money supply.
Reason (R) : It includes only those components of money supply that are readily usable for making transactions.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

211. Which body in India is responsible for the issuance of all currency notes except the one-rupee note?

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(A) Ministry of Finance
(B) State Bank of India
(C) Security Printing and Minting Corporation of India Ltd.
(D) Reserve Bank of India

212. Commercial banks contribute to the economy's capital formation by:
(A) Printing money
(B) Channeling public savings into productive investments
(C) Setting the fiscal deficit target
(D) Directly managing industrial production

213. Open Market Operations (OMO) are a tool of:
(A) Fiscal Policy
(B) Commercial Policy
(C) Monetary Policy
(D) Industrial Policy

214. Which of the following is a key characteristic of a depositor-accepting NBFC?
(A) It can offer any interest rate on its deposits.
(B) Its deposits are insured by DICGC.
(C) It can accept deposits for a maximum period of 120 months.
(D) It must have a minimum investment grade credit rating.

215. Consider the following statements about the secondary market:
1. It is also known as the stock market or stock exchange.
2. It facilitates the issue of new securities.
3. It provides liquidity and marketability to existing securities.
4. Prices in the secondary market are determined by demand and supply forces.

Which of the above statement(s) is/are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 3 and 4
(D) 1, 2 and 4

216. The sum of currency with the public, cash reserves of commercial banks, and deposits of government and banks with the central bank constitutes:
(A) High-Powered Money
(B) M1 Money Supply
(C) M3 Money Supply
(D) Near Money

217. The central bank is considered the 'apex' financial authority because it:
(A) Has the largest number of branches in the country.
(B) Offers the highest interest rates on deposits.
(C) Occupies the central position in the monetary and banking system.
(D) Is the oldest bank in the country.

218. In its role as an agent for customers, a commercial bank may perform functions like:
(A) Collecting dividends and interest on investments
(B) Loaning funds
(C) Providing safe deposit vaults
(D) Accepting demand deposits

219. The corridor in the Liquidity Adjustment Facility (LAF) is defined by the:
(A) CRR and SLR rates
(B) Bank Rate and Prime Lending Rate
(C) MSF rate and the Reverse Repo rate
(D) Call Money rate and the Treasury Bill rate

220. Consider the following list of financial institutions:
1. Commercial Banks
2. Investment Companies
3. Insurance Companies
4. Asset Finance Companies
5. Post Office Savings Banks

Which of the above are generally classified as Non-banking Financial Institutions (NBFCs)?
(A) 1, 2, and 3
(B) 2, 3, and 4
(C) 1, 4, and 5
(D) 2, 3, and 5

221. The main objective behind SEBI's regulation of takeover codes is to:
(A) Prevent all takeovers of domestic companies by any external entities.
(B) Help incumbent management to retain control over the company's board.
(C) Facilitate hostile takeovers by foreign companies in the domestic market.
(D) Ensure fair takeovers, protecting the interests of minority shareholders.

NODIA

222. The one-rupee note in India is issued by:
(A) Reserve Bank of India
(B) State Bank of India
(C) The President of India
(D) The Ministry of Finance, Government of India

223. The relationship between the Legal Reserve Ratio (LRR) and the money multiplier is:
(A) Direct
(B) Unrelated
(C) Inverse
(D) Proportional

224. Read the given statements regarding Open Market Operations (OMO).
Statement I : Open Market Operations refer to the buying and selling of foreign exchange by the RBI.
Statement II : The objective of OMO is to adjust the liquidity conditions in the economy.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false but Statement II is true.
(D) Statement I is true but Statement II is false.

225. Arrange the following institutions in the chronological order of their establishment.
1. Unit Trust of India (UTI)
2. Reserve Bank of India (RBI)
3. Securities and Exchange Board of India (SEBI)
4. Imperial Bank of India

Which of the following represents the correct sequence?
(A) 4, 2, 1, 3
(B) 2, 4, 1, 3
(C) 4, 1, 2, 3
(D) 2, 1, 4, 3

226. What does 'moral suasion' by the central bank entail?
(A) Using persuasion and informal suggestions to convince banks to cooperate with its policies.
(B) Enacting legally binding rules for commercial banks.
(C) Buying or selling government securities to influence bank reserves.
(D) Imposing penalties on non-compliant banks.

227. An NBFC that serves as an online platform for factoring of trade receivables of MSMEs is known as:
(A) Account Aggregator
(B) TReDS Platform
(C) P2P Lending Platform
(D) Asset Reconstruction Company

228. Which of the following represents a 'debt' instrument in the capital market?
(A) Equity Share
(B) Warrant
(C) Mutual Fund Unit
(D) Debenture

229. Which component distinguishes M3 from M1?
(A) Other deposits with RBI
(B) Currency with the public
(C) Net time deposits with the banking system
(D) Demand deposits with banks

230. Match the financial terms in List-I with their meanings in List-II.
List I: (Financial Term)
P. Call Money
Q. Treasury Bill
R. Commercial Paper
S. Certificate of Deposit
List II: (Meaning)
1. Short-term unsecured promissory note issued by corporations
2. Short-term negotiable instrument issued by banks to raise funds
3. Short-term borrowing/lending among banks
4. Short-term debt instrument issued by the government

Codes:
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

231. The primary aim of the 'lender of last resort' function is to:
(A) Ensure profitability of commercial banks.
(B) Provide cheap credit to the government.
(C) Control the foreign exchange rate.
(D) Maintain stability and confidence in the financial system.

NODIA

263. In its capacity as banker to the government, what specific service does the central bank provide to manage temporary fiscal imbalances?
(A) Issuing long-term government bonds to the public.
(B) Setting the income tax rates for the fiscal year.
(C) Providing short-term credit through Ways and Means Advances.
(D) Managing the country's foreign trade policy.

264. The lender of last resort function means the central bank provides liquidity to:
(A) any business enterprise facing bankruptcy.
(B) government departments experiencing a budget deficit.
(C) individuals who are unable to secure loans from commercial banks.
(D) commercial banks that are solvent but face temporary liquidity shortages.

265. What is the main purpose of the central bank acting as the banker's bank?
(A) To hold reserves, settle inter-bank payments, and prevent systemic financial crises.
(B) To compete with commercial banks for public deposits.
(C) To supervise the daily operations of every bank branch.
(D) To determine the interest rates on loans offered by commercial banks.

Direction : Please read the following source carefully.

Beyond its traditional roles, the modern central bank performs crucial regulatory and developmental functions that are vital for a healthy economy. Its most significant regulatory function is as the controller of credit and money supply. Through the implementation of monetary policy, the central bank influences the cost and availability of credit, thereby managing inflation, stimulating growth, and ensuring macroeconomic stability. This is complemented by its supervisory role, under which it regulates and supervises commercial banks and other financial institutions. This involves setting prudential norms for capital adequacy, asset quality, and risk management, as well as conducting inspections to ensure compliance. The objective of this supervision is to protect depositors' interests, maintain public confidence, and ensure the stability and efficiency of the financial system. Another key function is the management of the country's foreign exchange reserves. By buying and selling foreign currencies, the central bank can influence the exchange rate of the domestic currency and ensure stability in the external sector. In many developing economies, central banks also undertake promotional or developmental functions. These activities aim to strengthen the financial infrastructure, promote financial inclusion by extending banking services to unbanked areas, and develop specialized financial institutions and markets to support economic development.

Based on the above source, attempt the following five questions.

266. What is the primary objective of the central bank's function as the controller of credit?
(A) To maximize the profits of commercial banks.
(B) To manage inflation and promote economic stability through monetary policy.
(C) To directly allocate loans to specific industries.
(D) To ensure all citizens have access to unlimited credit.

267. The supervisory role of a central bank primarily aims to:
(A) determine the profit margins for all commercial banks.
(B) protect depositors' interests and ensure the stability of the financial system.
(C) dictate the daily operational decisions of bank managers.
(D) encourage risky lending practices to accelerate economic growth.

268. How does a central bank typically manage the country's foreign exchange reserves to ensure external stability?
(A) By buying and selling foreign currencies to influence the exchange rate.
(B) By setting fixed prices for all imported and exported goods.
(C) By prohibiting all transactions involving foreign currency.
(D) By nationalizing all foreign companies operating within the country.

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244. The central bank managing the exchange rate to prevent wide fluctuations is part of its function as:
(A) Controller of credit
(B) Banker to the government
(C) Supervisor of banks
(D) Custodian of foreign exchange reserves

245. Consider the following statements regarding the commercial banking system:
1. It is an essential part of the money market.
2. It is the primary source of credit for the industrial sector.
3. It is not involved in the foreign exchange market.
4. Its liabilities are a key component of the money supply.
5. It is regulated by the Securities and Exchange Board of India.

Which of the above statement(s) is/are correct?
(A) 1, 2 and 4
(B) 2, 3 and 5
(C) 1, 3 and 4
(D) 2, 4 and 5

246. What is the impact of a higher Statutory Liquidity Ratio (SLR) on a commercial bank's operations?
(A) It increases the bank's capacity to give loans.
(B) It restricts the bank's capacity to give loans.
(C) It increases the profitability of the bank.
(D) It has no effect on the bank's lending capacity.

247. The primary dealers in the government securities market are regulated by the:
(A) SEBI
(B) Ministry of Finance
(C) A self-regulatory organization
(D) RBI

248. Which of the following remains a fundamental point of difference between a bank and an NBFC?
(A) NBFCs cannot be part of the payment and settlement system and cannot issue cheques on themselves.
(B) NBFCs cannot lend money.
(C) Banks cannot invest in the stock market.
(D) Banks do not require a license to operate.

249. The process by which SEBI allows certain listed companies to make a fast-track issue of securities is known as:
(A) Initial Public Offer (IPO)
(B) Rights Issue
(C) Fast Track Issue (FTI)
(D) Bonus Issue

250. The measure of money supply M1 is composed of assets that are:
(A) Perfectly liquid and can be used directly as a medium of exchange.
(B) Highly profitable but not liquid.
(C) Held only by the government and the central bank.
(D) Long-term stores of value with low liquidity.

NODIA

Direction : Please read the following source carefully.

The concept of money supply is fundamental to macroeconomic analysis and monetary policy formulation. It refers to the total stock of money in circulation among the public at a particular point in time. The measurement of money supply is categorized into different aggregates, primarily based on the liquidity of the components. The narrowest and most liquid measure is M1, which comprises currency with the public (C), demand deposits of the public with the banking system (DD), and 'other deposits' with the Reserve Bank of India (OD). Currency with the public includes currency notes and coins held by the public, excluding cash held by banks. Demand deposits are those deposits that are withdrawable on demand, such as balances in current accounts. 'Other deposits' with the RBI include deposits from quasi-governmental bodies, foreign central banks, and international financial institutions. A slightly broader measure, M2, is defined as M1 plus savings deposits with Post Office savings banks. This inclusion acknowledges that while these post office savings are highly liquid, they are not as perfectly liquid as demand deposits since they are not chequable. The distinction between M1 and M2 highlights the varying degrees of liquidity and the institutional sources of monetary assets available to the public.

Based on the above source, attempt the following five questions.

232. 'Term Deposits' are liabilities of a commercial bank that are payable:
(A) Only after a specified period of time
(B) On demand
(C) At any time via cheque
(D) Only to the government

233. The monetary policy committee (MPC) in India is responsible for fixing the:
(A) Fiscal deficit target
(B) Statutory Liquidity Ratio (SLR)
(C) Benchmark policy rate (Repo rate)
(D) Prime lending rate of commercial banks

234. A key difference between NBFCs and banks is that the Deposit Insurance and Credit Guarantee Corporation (DICGC) facility is:
(A) Available to both bank and NBFC depositors.
(B) Not available to bank depositors but available to NBFC depositors.
(C) Available only to depositors of government-owned NBFCs.
(D) Not available to depositors of NBFCs.

235. Read the following Assertion (A) and Reason (R) and choose the correct option.
Assertion (A) : SEBI was given statutory powers to regulate the capital market effectively.
Reason (R) : Prior to the establishment of a statutory SEBI, the capital market was plagued by unfair trade practices, which eroded investor confidence.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

236. The total liabilities of the monetary authority of the country (RBI) are known as:
(A) Money Supply
(B) Monetary Base or High-Powered Money
(C) National Debt
(D) Aggregate Deposits

237. The central bank's control over the banking system is exercised through its power to:
(A) Decide the number of customers a bank can have.
(B) Set the salaries of bank employees.
(C) Issue licenses and conduct inspections.
(D) Dictate the location of every new branch.

238. If CRR is 4% and SLR is 18%, what is the Legal Reserve Ratio (LRR)?
(A) 14%
(B) 4.5%
(C) 72%
(D) 22%

239. An 'accommodating' monetary policy stance would involve:
(A) Cutting policy rates to boost growth.
(B) Raising policy rates to control inflation.
(C) Keeping policy rates unchanged.
(D) Selling government securities aggressively.

240. Consider the following statements regarding the functions of a Central Bank:
1. It is the sole issuer of currency.
2. It acts as a banker to the government.
3. It creates credit for the general public.
4. It acts as a lender of last resort.
Which of the above statement(s) is/are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 3 and 4

241. An NBFC-Factor is principally engaged in the business of:
(A) Acquiring debt and reorganizing it.
(B) Providing long-term infrastructure loans.
(C) Providing finance for physical assets.
(D) Acquiring receivables of an assignor (factoring).

242. The transfer of ownership of securities in the secondary market takes place through the:
(A) Stock Exchange
(B) Central Bank
(C) Company that issued the securities
(D) Ministry of Finance

243. The ratio of currency held by the public to their holdings of demand deposits is called the:
(A) Reserve-deposit ratio
(B) Cash reserve ratio
(C) Currency-deposit ratio
(D) Statutory liquidity ratio

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257. Based on the passage, what is the primary reason for M3 being a less liquid measure than M1?
(A) It includes deposits from foreign central banks.
(B) It excludes highly liquid 'other deposits' with the RBI.
(C) It accounts for deposits held by the government.
(D) It incorporates time deposits, which have withdrawal restrictions.

258. Which of the following correctly represents the formula for calculating M4?
(A) M3 + All deposits with post office savings organisations (excluding National Savings Certificates).
(B) M1 + Net time deposits of commercial banks.
(C) M2 + All deposits with post office savings organisations.
(D) M3 + Savings deposits with Post Office savings banks.

259. The passage suggests that M3 is often referred to as aggregate monetary resources because it:
(A) is the most liquid measure of money supply.
(B) only includes assets that are immediately spendable.
(C) provides a comprehensive indicator of the total liquidity available through the banking system.
(D) is the only measure used by the central bank for policy formulation.

260. What is the relationship between the money supply aggregates M1, M3, and M4 in terms of their scope?
(A) The measures represent an increasing order of breadth, with M1 being the narrowest and M4 the broadest.
(B) M1 is the broadest, followed by M3 and then M4.
(C) The scope of M1 and M4 is identical, while M3 is narrower.
(D) M3 is the broadest measure, encompassing both M1 and M4.

Direction : Please read the following source carefully.

The central bank is the apex institution in a country's monetary and financial system, entrusted with a range of critical functions to maintain economic stability and growth. One of its most fundamental roles is being the sole authority for the issue of currency. This monopoly on currency issue ensures uniformity in the notes and coins in circulation and allows the central bank to control the money supply. The currency issued by the central bank is recognized as legal tender, meaning it must be accepted for the settlement of debts. Another core function is acting as the banker, agent, and advisor to the government. As a banker, it manages the government's accounts, receives deposits, and makes payments on its behalf. It also provides short-term credit to the government, often through mechanisms like Ways and Means Advances (WMA), to help it manage temporary mismatches in revenue and expenditure. Furthermore, the central bank serves as the banker's bank. It holds a portion of the cash reserves of commercial banks, facilitates the clearing and settlement of inter-bank transactions, and acts as the lender of last resort. In this last capacity, it provides liquidity to solvent but temporarily illiquid commercial banks, thereby preventing banking crises and maintaining public confidence in the financial system.

Based on the above source, attempt the following five questions.

261. What is the primary significance of the central bank having a monopoly on currency issue?
(A) It generates significant profit for the government.
(B) It simplifies the process of printing currency notes.
(C) It prevents commercial banks from issuing their own currency.
(D) It allows for direct control over the money supply and ensures uniformity.

262. The term legal tender implies that the currency issued by the central bank:
(A) can be legally exchanged for gold or other commodities.
(B) must be legally accepted as payment for settling debts.
(C) is the only form of money accepted in the country.
(D) is guaranteed to maintain its value over time.

NODIA

(A) Credit creation is independent of the deposits a bank holds.
(B) Banks create credit first and then seek deposits to back it up.
(C) The ability of a bank to create credit is fundamentally based on the deposits it accepts from the public.
(D) The amount of credit created is always equal to the total deposits held by the bank.

Direction : Please read the following source carefully.

Monetary policy refers to the actions undertaken by a central bank to manipulate the money supply and credit conditions to achieve macroeconomic objectives. The instruments of monetary policy are broadly categorized as quantitative and qualitative. Quantitative, or general, instruments are designed to influence the total volume of credit in the economy. One such tool is the Bank Rate (or Discount Rate), which is the rate at which the central bank provides rediscounting facilities or loans to commercial banks. A higher bank rate makes borrowing from the central bank more expensive, compelling commercial banks to raise their own lending rates, thereby contracting credit. Another powerful instrument is Open Market Operations (OMOs), which involve the sale and purchase of government securities by the central bank in the open market. Selling securities absorbs liquidity from the system, while purchasing securities injects liquidity. A third set of tools are the variable reserve requirements, namely the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR). CRR is the fraction of their net demand and time liabilities (NDTL) that banks must maintain as cash reserves with the central bank. SLR is the fraction of NDTL that banks must maintain in the form of specified liquid assets, including cash, gold, and approved securities. By altering CRR and SLR, the central bank can directly affect the credit-creating capacity of commercial banks.

Based on the above source, attempt the following five questions.

276. Which of the following is the defining characteristic of quantitative monetary policy instruments?
(A) They aim to influence the overall volume of credit and money supply.
(B) They target specific sectors of the economy for credit control.
(C) They are primarily used to regulate foreign exchange rates.
(D) They consist of informal suggestions and advice to commercial banks.

277. How does an increase in the Bank Rate typically affect the economy?
(A) It encourages commercial banks to borrow more from the central bank.
(B) It leads to an expansion of credit and a decrease in market interest rates.
(C) It directly increases the amount of currency in circulation.
(D) It makes borrowing costlier for commercial banks, leading to a contraction of credit.

278. When a central bank conducts Open Market Operations by selling government securities, what is the intended effect?
(A) To inject liquidity into the banking system.
(B) To absorb excess liquidity from the banking system.
(C) To lower the interest rates on government bonds.
(D) To increase the credit-creating capacity of commercial banks.

279. What does the Statutory Liquidity Ratio (SLR) mandate for commercial banks?
(A) To maintain a fraction of their liabilities as cash with the central bank.
(B) To lend a certain percentage of their funds to priority sectors.
(C) To maintain a fraction of their liabilities in the form of specified liquid assets.
(D) To keep a minimum amount of foreign currency as reserves.

280. A reduction in the Cash Reserve Ratio (CRR) by the central bank would most likely lead to:
(A) a decrease in the funds available with commercial banks for lending.
(B) a mandatory increase in the lending rates of commercial banks.
(C) a contraction in the overall money supply.
(D) an increase in the credit-creating capacity of commercial banks.

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269. What does the passage identify as a key developmental function of central banks, particularly in emerging economies?
(A) Directly managing state-owned industrial enterprises.
(B) Setting the curriculum for university economics programs.
(C) Promoting financial inclusion and strengthening financial infrastructure.
(D) Funding political campaigns and government initiatives.

270. Setting prudential norms for capital adequacy and asset quality for commercial banks falls under which function of the central bank?
(A) The currency issue function.
(B) The banker to the government function.
(C) The management of foreign exchange function.
(D) The supervisory and regulatory function.

Direction : Please read the following source carefully.

Commercial banks are the cornerstone of a country's financial system, acting as pivotal financial intermediaries between savers and borrowers. Their primary function is twofold: accepting deposits from the public and advancing loans. Deposits are broadly classified into demand deposits and time deposits. Demand deposits, such as those in current accounts, are payable on demand and are chequable, forming a part of the narrow money supply. Time deposits, including fixed and recurring deposits, are accepted for a specified period and offer higher interest rates but have restricted liquidity. The second primary function, advancing loans, is the main source of income for banks. Loans are provided in various forms, such as cash credit, overdraft facilities, and term loans, to different sectors of the economy. A unique and critical function that stems from these primary activities is credit creation. When a bank grants a loan, it typically opens a deposit account in the borrower's name, thereby creating a new deposit. Since not all depositors withdraw their money simultaneously, banks can lend out a significant portion of their deposits, leading to a multiple expansion of credit in the system. Beyond these, commercial banks perform secondary functions, including agency services like collecting cheques and paying bills for customers, and general utility services such as providing safe deposit lockers and issuing letters of credit.

Based on the above source, attempt the following five questions.

271. According to the passage, what are the two primary functions of a commercial bank?
(A) Issuing currency and regulating the stock market.
(B) Providing insurance and managing mutual funds.
(C) Accepting deposits and advancing loans.
(D) Collecting taxes and funding government projects.

272. What distinguishes demand deposits from time deposits?
(A) Demand deposits earn higher interest rates than time deposits.
(B) Demand deposits are withdrawable on demand, while time deposits are held for a specific period.
(C) Time deposits are part of the narrow money supply, whereas demand deposits are not.
(D) Only corporations can hold time deposits, while individuals hold demand deposits.

273. The passage describes credit creation as a unique function of commercial banks. This process involves:
(A) printing new currency notes to meet loan demand.
(B) borrowing money from the central bank to lend to customers.
(C) converting foreign currency into domestic currency for lending purposes.
(D) creating new deposits through the act of granting loans, leading to a multiple expansion of credit.

NODIA

274. Providing safe deposit lockers and issuing letters of credit are examples of which category of commercial bank functions?
(A) General utility services.
(B) Primary functions.
(C) Credit creation functions.
(D) Agency services.

275. What inference can be made about the relationship between deposit acceptance and credit creation?

251. Which of the following statements most accurately describes the composition of M1?
(A) It includes currency held by banks, demand deposits, and all deposits with the RBI.
(B) It consists of currency with the public, demand deposits with the banking system, and 'other deposits' with the RBI.
(C) It comprises currency with the public, time deposits, and savings deposits with Post Office savings banks.
(D) It is the sum of currency with the public and all deposits held by commercial banks.

252. According to the passage, what is the primary criterion used to categorize different measures of money supply?
(A) The degree of liquidity of the components.
(B) The institutional source of the monetary asset.
(C) The interest rate earned on the component.
(D) The geographical circulation of the money.

253. What can be inferred about the distinction between demand deposits and savings deposits with Post Office savings banks?
(A) Both are equally liquid and included in M1.
(B) Savings deposits with Post Office banks are considered more liquid than demand deposits.
(C) Demand deposits are part of M1, while Post Office savings deposits are added to M1 to form M2, implying a difference in their liquidity.
(D) Post Office savings deposits are excluded from all measures of money supply due to their non-chequable nature.

254. The component 'other deposits' with the RBI, as part of M1, primarily includes deposits from which entities?
(A) Private corporations and commercial banks.
(B) The general public and state governments.
(C) Non-banking financial companies and mutual funds.
(D) Foreign central banks and international financial institutions.

255. Why is M2 considered a broader measure of money supply than M1?
(A) Because it includes time deposits of commercial banks.
(B) Because it accounts for all currency in circulation, including cash held by banks.
(C) Because it incorporates an additional, albeit slightly less liquid, asset held by the public.
(D) Because it redefines demand deposits to include a wider range of accounts.

Direction : Please read the following source carefully.

Beyond the narrow measures of money supply, broader aggregates are crucial for a comprehensive understanding of liquidity in the economy. The most commonly used measure of broad money is M3. It is calculated as M1 plus the net time deposits of the public with the commercial banking system. Time deposits, such as fixed deposits, are less liquid than demand deposits because they are held for a specific period and cannot be withdrawn on demand without penalty. The inclusion of these deposits makes M3 a significantly larger and less liquid aggregate compared to M1. It is often referred to as aggregate monetary resources and is a key indicator for central banks in monitoring monetary trends and formulating policy. An even broader measure is M4, which is defined as M3 plus all deposits with post office savings organisations (excluding National Savings Certificates). This aggregate captures almost the entire spectrum of monetary and near-monetary liabilities of the banking sector and post offices. The hierarchy of these measures, from M1 to M4, represents a continuum of decreasing liquidity. Understanding the composition and behaviour of these broader aggregates is essential for assessing the overall liquidity position and inflationary pressures within an economy, providing a more complete picture than narrow money alone.

Based on the above source, attempt the following five questions.

256. What key component distinguishes M3 from M1?
(A) Savings deposits with Post Office savings banks.
(B) Net time deposits with the commercial banking system.
(C) All deposits with post office savings organisations.
(D) Currency held by the banking system.

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carefully.

In addition to quantitative tools that affect the total volume of credit, central banks employ qualitative or selective credit control instruments. Unlike general controls, these instruments are designed to regulate the flow of credit into specific uses or sectors of the economy, discriminating between productive and unproductive applications of credit. One prominent qualitative tool is the fixing of margin requirements. A margin is the proportion of the value of a security that a borrower must provide from their own funds, with the bank financing the rest. By increasing the margin requirement for loans against certain commodities or shares, the central bank can discourage borrowing for speculative hoarding or trading. Another tool is consumer credit regulation, which can stipulate down payment amounts and repayment period lengths for loans on durable consumer goods, thereby controlling demand. Moral suasion represents a more informal approach, where the central bank uses persuasion, advice, and informal suggestions to encourage commercial banks to adhere to its policy stance without issuing formal directives. If moral suasion proves ineffective, the central bank can resort to issuing directives. These are formal written orders that compel commercial banks to act in a certain manner, such as restricting or channelling credit to particular sectors. The primary goal of these selective tools is to manage credit distribution without affecting the total credit supply.

Based on the above source, attempt the following five questions.

281. What is the fundamental difference between qualitative and quantitative monetary policy instruments?
(A) Qualitative tools regulate the direction of credit, while quantitative tools regulate the overall supply of credit.
(B) Qualitative tools affect the total credit volume, while quantitative tools target specific sectors.
(C) Quantitative tools are informal, while qualitative tools are formal directives.
(D) Quantitative tools are used for expansionary policy, while qualitative tools are used for contractionary policy.

282. If a central bank wishes to curb speculative activity in the stock market, which qualitative tool would be most appropriate?
(A) Lowering the overall bank rate.
(B) Increasing the margin requirements for loans against shares.
(C) Purchasing government securities in the open market.
(D) Decreasing the Cash Reserve Ratio for all banks.

283. Moral suasion, as an instrument of monetary policy, relies on:
(A) legal enforcement and penalties for non-compliance.
(B) the central bank's persuasive influence over commercial banks.
(C) mandatory changes in reserve requirements.
(D) the direct regulation of consumer credit terms.

284. A central bank issuing a formal written order to commercial banks to limit their lending to the real estate sector is an example of:
(A) a directive.
(B) Open Market Operations.
(C) a change in the Bank Rate.
(D) moral suasion.

285. The regulation of down payment amounts and loan repayment periods for purchasing automobiles falls under which category of selective credit control?
(A) Fixing of margin requirements.
(B) Directives to banks.
(C) Consumer credit regulation.
(D) Moral suasion.

Direction : Please read the following source carefully.

The working of monetary policy is understood through its transmission mechanism, which describes the process by which central bank policy decisions are transmitted through the financial system to affect aggregate demand, and ultimately inflation and economic output. This process is complex and operates through several distinct but interconnected channels. The most traditional is the interest rate channel, where a change in the policy rate (like the repo rate) influences other market interest rates, including bank lending

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responsibilities include acting as the lender of last resort, managing foreign exchange reserves, and implementing monetary policy to ensure price stability and economic growth within the national financial system.

9. (C) The primary deposits received from the public
Credit creation is the process where banks expand the money supply by lending out a portion of their deposits. This mechanism is primarily driven by the initial cash deposits received from customers in their accounts. Banks keep a small fraction as reserves and lend the remainder, which eventually returns to the banking system as new deposits, allowing for further rounds of lending and the creation of derivative deposits.

10. (C) A is true but R is false.
An increase in the repo rate by the central bank directly raises the cost of funds for commercial banks, making their borrowing more expensive. This leads to higher interest rates for consumers. While the assertion correctly describes this relationship, the reason is false because the repo rate is actually the rate at which the central bank lends to commercial banks, rather than borrowing from them for liquidity purposes.

11. (D) Non-banking Financial Institution
A mutual fund is a financial intermediary that pools money from numerous investors to purchase a diversified portfolio of stocks, bonds, or other securities. Because it provides financial services and facilitates investment without holding a full banking license or accepting traditional demand deposits, it is classified as a non-banking financial institution. These entities play a vital role in mobilizing small savings and providing professional management for individual investors.

12. (B) Sensex - Money Market Index
In the financial landscape, different regulators and indices track specific segments. SEBI oversees the capital market, while the central bank regulates the money market. Initial public offerings are primary market instruments for raising new equity. However, the Sensex is a benchmark index that tracks the performance of the top companies on the stock exchange, making it a capital market index rather than an indicator for the short-term money market.

NODIA

13. (C) M1 + Savings deposits with Post Office saving banks
Money supply is measured using different aggregates based on liquidity and the nature of the institutions involved. M2 is a broader measure than M1 as it includes M1 plus the savings deposits held by individuals in post office savings banks. This measure accounts for liquid assets that are not part of the commercial banking system but still represent readily available funds for consumption and transactions by the public.

14. (A) Both Statement I and Statement II are true.
The central bank serves as a clearing house where commercial banks settle their mutual claims and obligations. Since all commercial banks maintain accounts with the central authority, inter-bank debts can be resolved through simple bookkeeping entries. This system is highly efficient as it eliminates the logistical need for transferring physical cash between different banks, thereby streamlining the entire payment and settlement process within the national economy.

15. (B) 2, 3 and 4
Commercial banks perform several important roles beyond simple deposit-taking. They provide overdraft facilities, allowing customers to withdraw more than their balance, and perform agency functions like collecting cheques and dividends. Additionally, they may underwrite new securities in the capital market. However, the function of acting as the lender of last resort is exclusively reserved for the central bank, which provides emergency liquidity to the entire banking system when needed.

16. (B) An increase in the lending capacity of commercial banks.
A reduction in the cash reserve ratio decreases the percentage of deposits that commercial banks must keep with the central bank. This action releases more funds into the banking system, thereby increasing the overall lending capacity of banks. Consequently, more credit becomes available for borrowers, which helps in stimulating economic growth and increasing

banks, NBFIs enhance competition and diversity in the financial sector. Given their growing size and interconnectedness with the banking system, their activities can have significant systemic implications. Consequently, they are subject to regulation by the central bank or other designated regulatory authorities to ensure financial stability and protect consumer interests.

Based on the above source, attempt the following five questions.

291. What is the primary characteristic that distinguishes NBFIs from commercial banks?
(A) NBFIs are not permitted to grant loans or advances.
(B) NBFIs operate exclusively in rural areas.
(C) NBFIs cannot accept demand deposits from the public.
(D) NBFIs are not subject to any form of regulation.

292. According to the passage, what is a key economic role of NBFIs?
(A) Mobilizing savings and channelling them into investment.
(B) Issuing legal tender currency.
(C) Acting as a lender of last resort to commercial banks.
(D) Executing the government's fiscal policy.

293. Which of the following are examples of Non-banking Financial Institutions mentioned in the passage?
(A) The central bank and state-owned commercial banks.
(B) Post offices and government treasuries.
(C) Stock exchanges and credit rating agencies.
(D) Insurance companies, mutual funds, and NBFCs.

294. The passage suggests that NBFIs need to be regulated primarily because:
(A) they compete too aggressively with commercial banks.
(B) their activities can have systemic implications for overall financial stability.
(C) they consistently generate lower returns than banks.
(D) they are exclusively owned by foreign entities.

295. How do NBFIs contribute to the financial sector?
(A) By replacing the functions of commercial banks entirely.
(B) By restricting financial services to a few large corporations.
(C) By complementing bank services and enhancing competition and diversity.
(D) By exclusively managing the government's payment and settlement system.

Direction : Please read the following source carefully.

The capital market is a critical component of the financial system that facilitates the channelling of long-term funds from savers to those who can put them to productive use. It is broadly divided into two segments: the primary market and the secondary market. The primary market is where new securities (both equity and debt) are issued for the first time. This is the market for capital formation, where corporations and governments raise fresh capital directly from investors through mechanisms like an Initial Public Offering (IPO). In contrast, the secondary market, commonly associated with stock exchanges, deals with the trading of existing securities. It does not create new capital but provides liquidity and marketability to securities already issued in the primary market, allowing investors to buy and sell them. The efficient functioning of the capital market is vital for economic growth as it directs savings into long-term investments. To ensure this efficiency and maintain investor confidence, the market is overseen by a regulatory body, such as the Securities and Exchange Board of India (SEBI). The principal objectives of such a regulator are to protect the interests of investors, promote the development of the capital market, and regulate market participants and practices to ensure fairness and transparency. This is achieved through measures like mandatory disclosure norms, insider trading regulations, and continuous market surveillance.

Based on the above source, attempt the following five questions.

296. What is the primary function of the primary capital market?
(A) To facilitate the trading of previously issued securities.
(B) To provide liquidity for existing financial

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liquidity in the overall financial system and banking sector.

25. (A) 1, 4, 3, 2

Liquidity refers to how quickly an asset can be used for transactions without losing value. M1 is the most liquid as it includes currency and demand deposits. M2 follows next, including post office savings. M3 is less liquid due to the inclusion of time deposits. M4 is the least liquid as it encompasses all post office deposits. The correct descending order of liquidity is therefore M1, M2, M3, and M4.

26. (A) Banker's bank and supervisor

The central bank acts as an apex institution that oversees the entire banking sector. In its role as a banker's bank, it holds the reserves of commercial banks and provides them with liquidity support. As a supervisor, it has the legal authority to regulate their operations, issue licenses, and conduct inspections. This combined function allows the central authority to ensure that all banks comply with monetary policy and maintain financial stability.

27. (B) Both Statement I and Statement II are false.

Banking functions are categorized into primary and secondary types. Accepting deposits and advancing loans are the fundamental, primary functions of any commercial bank. Agency functions, such as collecting cheques or paying insurance premiums for customers, are considered secondary or ancillary services. Both statements are incorrect because they swap the classifications of these essential activities, misrepresenting the core business model and the additional services provided by commercial banking institutions.

28. (B) Rediscounts the first-class bills of exchange and government securities held by commercial banks.

The bank rate is a long-term monetary policy instrument used by the central bank. It represents the official interest rate at which the central authority is prepared to rediscount first-class bills of exchange or lend against approved securities to commercial banks. Unlike the repo rate, it does not involve a repurchase agreement and typically influences the long-term interest rate structure and credit availability within the entire economy and the financial system.

29. (C) An Investment Company (IC)

Non-banking financial companies are classified according to the nature of their principal business activity. An entity that focuses primarily on the acquisition of shares, stocks, bonds, and other financial securities is categorized as an investment company. These firms play a crucial role in the capital market by channeling funds into various corporate and government instruments, providing investors with specialized expertise in portfolio management and capital appreciation within the broader financial sector.

30. (B) P-2, Q-1, R-4, S-3

Different financial terms describe various aspects of the capital market. Equity shares represent ownership in a corporation, while debentures are instruments used for long-term debt. Bonus shares are additional shares given to current stockholders at no cost, often utilizing the company's accumulated reserves. A bull market describes a period where stock prices are rising and optimism is high. Understanding these terms is essential for analyzing market trends and corporate financing structures effectively.

31. (A) Net time deposits of the commercial banking system

Money supply measures expand from narrow to broad aggregates. M1 includes currency and demand deposits, which are highly liquid. M3, known as broad money, adds net time deposits of the banking system to the M1 total. Time deposits, like fixed deposits, are less liquid because they are held for a specific duration. Including these deposits in M3 provides a more comprehensive measure of the total monetary resources available within the national economy.

32. (B) Provides liquidity to banks when they cannot obtain it from other sources.

The lender of last resort function is a vital safety net provided by the central bank to maintain financial stability. When commercial banks face a sudden liquidity crisis and cannot borrow from the market or other banks, the central bank provides emergency credit. This intervention prevents the failure of solvent banks and protects

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ANSWERS

1. (B) M1
Money supply measures are classified based on their liquidity, which refers to how quickly an asset can be converted into cash. M1 is the most liquid form because it consists of currency held by the public and demand deposits in banks. These components can be immediately used as a medium of exchange for any transaction, making M1 the primary indicator of narrow money in the economy.

2. (C) Statement I is true but Statement II is false.
In a modern financial system, the central bank holds the exclusive legal right to print and issue national currency notes. This monopoly ensures consistency in the legal tender and allows for effective management of the money supply. Commercial banks do not possess this power; their role is limited to accepting deposits and creating credit through lending, rather than issuing physical currency in any specific region.

3. (C) Accepting deposits and providing loans
Commercial banks act as the primary financial intermediaries within an economy, bridging the gap between surplus units and deficit units. Their core operations involve mobilizing savings from the general public through various types of deposit accounts. These gathered funds are then channeled into the economy by providing loans and advances to individuals, businesses, and other entities, facilitating investment, consumption, and overall economic growth and development.

4. (D) Repo Rate
The repo rate is a critical tool of monetary policy used by the central bank to control liquidity and inflation. It is the interest rate at which commercial banks borrow money from the central bank for short durations by pledging government securities as collateral. By adjusting this rate, the central authority influences the cost of credit in the economy, affecting borrowing and spending patterns across all sectors.

5. (A) P-1, Q-2, R-4, S-3
Financial institutions are categorized by their specific operational focus. Asset finance companies provide funding for physical assets, while investment companies primarily acquire securities. Loan companies offer advances for diverse activities excluding asset financing. Infrastructure finance companies dedicate at least seventy-five percent of their assets to large-scale infrastructure projects. Matching these roles correctly helps in understanding the diverse landscape of non-banking financial companies and their specific contributions to the national economy.

6. (B) It is the market where new securities are issued for the first time.
The primary market allows companies to raise fresh capital by issuing new shares or bonds directly to investors. This process facilitates capital formation in the economy and provides initial investment opportunities for the general public. It is distinct from the secondary market, where existing securities are traded among investors. New issues in the primary market can take several forms, including initial public offerings and private placements of shares.

7. (D) Currency with public, vault cash, and bank deposits with Central Bank
High-powered money represents the total monetary base of a country, serving as the foundation for credit expansion by the banking system. It comprises the total liability of the monetary authority, including currency held by the public and the reserves of commercial banks. These reserves consist of both physical vault cash and the mandatory balances that commercial banks must maintain with the central bank to ensure financial stability.

8. (A) Accepting deposits from the general public
Central banks operate as the apex monetary authority, focusing on macro-level regulation, currency issuance, and government banking. Unlike commercial banks, they do not provide retail services or accept savings deposits from individual citizens or households. Their primary

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and deposit rates. This, in turn, affects the cost of capital for firms and the cost of borrowing for households, thereby influencing investment and consumption decisions. Another key pathway is the credit channel, which works by affecting the supply of bank loans. A contractionary policy can reduce banks' available reserves, forcing them to curtail lending, which directly impacts firms and consumers who are bank-dependent. The asset price channel suggests that monetary policy can influence the prices of assets like stocks and real estate. A policy easing can boost asset prices, increasing household wealth and making it cheaper for firms to raise finance, thus stimulating spending. Finally, the exchange rate channel operates in an open economy, where changes in domestic interest rates affect capital flows and the exchange rate, which in turn impacts the price of imports and exports, and thus net exports. The effectiveness of these channels is often subject to significant time lags and can be influenced by the prevailing economic structure and agent expectations.

Based on the above source, attempt the following five questions.

286. What is the primary function of the monetary policy transmission mechanism?
(A) To explain how the government's fiscal budget is created.
(B) To describe the process of printing and distributing new currency.
(C) To outline the regulations governing commercial bank operations.
(D) To detail how central bank policy actions influence aggregate demand and inflation.

287. According to the interest rate channel, a decrease in the central bank's policy rate is expected to:
(A) increase the cost of capital for firms and discourage investment.
(B) cause banks to hold more reserves and reduce lending.
(C) decrease market interest rates and stimulate consumption and investment.
(D) lead to an immediate appreciation of the domestic currency.

288. The credit channel of monetary policy transmission emphasizes the effect of policy changes on:
(A) the price of government securities.
(B) the supply of bank loans.
(C) household wealth through asset prices.
(D) the exchange rate and net exports.

289. How does the asset price channel suggest monetary policy can stimulate the economy?
(A) By directly setting the prices of stocks and real estate.
(B) By increasing taxes on capital gains, which encourages long-term investment.
(C) By forcing firms to issue new shares to the public.
(D) By boosting asset prices, which increases household wealth and stimulates spending.

290. The exchange rate channel implies that a tightening of monetary policy (higher interest rates) in an open economy could lead to:
(A) an appreciation of the domestic currency and a decrease in net exports.
(B) a depreciation of the domestic currency and an increase in net exports.
(C) a decrease in the price of imported goods.
(D) an increase in capital outflows from the country.

Direction : Please read the following source carefully.

The financial landscape of an economy comprises more than just commercial banks; it also includes a diverse set of Non-banking Financial Institutions (NBFIs). NBFIs are entities that provide financial services and perform some banking functions but do not hold a banking license. The crucial distinction is that they cannot accept demand deposits from the public, which are chequable and form a part of the payment and settlement system. However, they play a vital role in financial intermediation. NBFIs, which include institutions like insurance companies, mutual funds, pension funds, and Non-Banking Financial Companies (NBFCs), are instrumental in mobilizing public savings and channelling them into investment. They often cater to niche market segments and provide specialized financial products and services that may not be offered by traditional banks. For instance, development finance institutions focus on long-term project finance, while NBFCs might specialize in vehicle or infrastructure financing. By complementing the services of commercial

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the total money supply within the national economy during periods of financial stagnation.

17. (B) They are a part of the payment and settlement system.

Non-banking financial companies differ from traditional banks in several key regulatory aspects. While they are registered under corporate law and provide diverse credit services, they are strictly prohibited from accepting demand deposits. Furthermore, they are not part of the payment and settlement system, meaning they cannot issue cheques drawn on themselves. Depositors in these institutions also do not benefit from the insurance protection provided to bank customers.

18. (A) Rights Issue

When a company intends to raise additional capital, it may offer new shares to its current shareholders in proportion to their existing holdings. This process is known as a rights issue. It allows existing investors to maintain their percentage of ownership in the company and often provides shares at a discount to the market price. This method is distinct from public offerings where shares are sold to new investors.

19. (C) The currency-deposit ratio and the reserve-deposit ratio

The money multiplier measures the maximum amount of money the banking system can create for every unit of high-powered money. This value is determined by the behavior of both the public and the banks. The currency-deposit ratio reflects the public's preference for holding cash versus bank deposits, while the reserve-deposit ratio indicates the proportion of deposits that banks must keep as reserves rather than lending them out.

20. (C) 1, 2, 3, and 4 only

The central bank functions as the banker to the government by managing its accounts, facilitating payments and receipts, and providing short-term credit through instruments like treasury bills. It also manages the public debt by issuing and servicing government securities. However, it does not typically provide commercial loans to public sector undertakings; such corporate banking services are the responsibility of commercial banks rather than the central monetary authority.

21. (C) To expand the money supply and facilitate economic activity

Credit creation by commercial banks is a fundamental driver of economic growth. By lending out a portion of their deposits, banks effectively increase the total money supply available in the economy. This process provides necessary funds for businesses to invest and for consumers to spend, thereby stimulating production and trade. While profitability is a motive for banks, the broader economic purpose is to support and expand various national economic activities.

22. (B) A decrease in the cash reserves of commercial banks

Open market operations are used by the central bank to manage liquidity. When the central authority sells government securities to the public or banks, the buyers pay using funds from their bank accounts. This process drains cash from the commercial banking system, leading to a direct decrease in the banks' cash reserves. Consequently, their capacity to create credit is reduced, helping to control inflation and slow down money supply growth.

23. (D) Reserve Bank of India (RBI)

Non-banking financial companies are specialized financial institutions that require strict oversight to ensure the stability of the financial system. In India, the Reserve Bank of India is the primary regulatory body responsible for the registration, supervision, and regulation of these entities. The central bank sets the prudential norms, capital requirements, and operational guidelines that these companies must follow to protect the interests of their investors and the broader economy.

24. (A) The Money Market

The money market serves as a platform for trading short-term financial assets that have a maturity period of less than one year. These assets are characterized by high liquidity and a low risk of capital loss. Participants use this market to manage temporary cash surpluses or deficits, ensuring efficient allocation of funds for working capital requirements and maintaining

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assets.
(C) To regulate the activities of commercial banks.
(D) To enable corporations and governments to raise new, long-term capital.

297. The key role of the secondary market is to:
(A) provide liquidity and marketability to existing securities.
(B) issue new shares to the public through IPOs.
(C) directly finance government budget deficits.
(D) set the interest rates for corporate loans.

298. A company conducting an Initial Public Offering (IPO) to raise funds is operating in the:
(A) secondary market.
(B) primary market.
(C) money market.
(D) foreign exchange market.

299. According to the passage, what is one of the principal objectives of a capital market regulator like SEBI?
(A) Maximizing the profits of listed companies.
(B) Protecting the interests of investors and ensuring fair market practices.
(C) Guaranteeing returns on all investments.
(D) Setting the prices of securities traded on the stock exchange.

300. Which of the following is an example of a regulatory measure used by a capital market regulator to ensure fairness?
(A) Enforcing mandatory disclosure norms for companies.
(B) Fixing the number of companies that can be listed.
(C) Providing direct loans to investors.
(D) Determining the daily trading volume for the entire market.

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the banking system from widespread panic, ensuring that the public maintains confidence in the safety of their deposits.

33. (B) Providing locker facilities
Commercial banks offer a variety of services to their customers, which are classified into primary and secondary categories. Primary functions include accepting deposits and advancing loans, which form the core of the banking business. Secondary functions are additional utility services provided for customer convenience, such as providing safe deposit lockers for valuables. These services enhance the bank's relationship with its clients but are not essential to the fundamental process of credit creation.

34. (A) Moral Suasion
Moral suasion is a qualitative tool of monetary policy used by the central bank to influence the behavior of commercial banks. It involves informal methods such as letters, meetings, and speeches to persuade banks to align their credit policies with the central bank's objectives, such as curbing inflationary pressure or increasing lending to priority sectors. Unlike quantitative tools, it relies on psychological influence and cooperation rather than mandatory reserve requirements or interest rate changes.

35. (A) Both A and R are true and R is the correct explanation of A.
Non-banking financial companies significantly enhance financial inclusion by reaching out to segments of the population that are often overlooked by traditional banks. Their operational flexibility and deep local presence allow them to provide credit to small businesses and the unorganized sector. The reason accurately explains this success, as their streamlined procedures and specialized knowledge of local markets enable them to serve diverse credit needs more effectively than large, bureaucratic banking institutions.

36. (D) SEBI
The Securities and Exchange Board of India is the statutory regulatory body responsible for overseeing the securities and commodity markets in the country. Its primary mission is to protect the interests of investors and promote the orderly development of the capital market. SEBI regulates stock exchanges, brokers, and other intermediaries, ensuring transparency and fairness while preventing fraudulent practices and market manipulation to maintain investor confidence in the overall financial system.

37. (C) Money supply
The total amount of money available in an economy at a specific point in time is referred to as the money supply. It is a stock concept that includes various forms of currency and liquid assets held by the public and the banking system. Measuring money supply is essential for central banks to manage inflation, interest rates, and overall economic stability, as the volume of money directly influences the level of spending and production.

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38. (B) Custodian of foreign exchange reserves
The central bank is responsible for managing and safeguarding the nation's foreign currency and gold reserves. In its role as the custodian of these reserves, it intervenes in the foreign exchange market to buy or sell currencies. This activity is aimed at maintaining the external value of the domestic currency and ensuring stability in the exchange rate, which is vital for facilitating international trade and maintaining the country's overall balance of payments position.

39. (D) Derivative deposits
When a commercial bank provides a loan, it usually does not give cash but instead opens a new deposit account for the borrower. These deposits, which arise from the bank's lending activities rather than from an initial cash deposit, are called derivative or secondary deposits. The difference between the total deposits in the banking system and the initial primary deposits represents the amount of money created through this credit expansion process by the banks.

40. (A) 1 and 2 only
Monetary policy instruments are divided into quantitative and qualitative measures. Quantitative tools, such as open market operations and the cash reserve ratio, are designed to influence the total volume of money and credit available in the entire economy across all sectors. In contrast, qualitative tools like

margin requirements and moral suasion focus on controlling the direction and quality of credit, often targeting specific sectors or activities to achieve certain socio-economic objectives.

41. (D) NBFCs are not part of the payment and settlement system.

Although non-banking financial companies perform many functions similar to banks, there are fundamental differences between them. NBFCs are not part of the payment and settlement system, meaning they cannot issue cheques drawn on themselves or facilitate the same level of transactional services as commercial banks. Additionally, unlike bank deposits, funds kept in NBFCs are not covered by the deposit insurance scheme, and these entities are strictly prohibited from accepting demand deposits from customers.

42. (A) A company is listing and offering its shares to the public for the first time.

An initial public offering marks the transition of a private company to a public one. It is the process where a company offers its shares to the general public for the first time in the primary market. This enables the company to raise significant capital from a wide pool of investors to fund expansion or pay off debt. Once the IPO is completed, the shares are listed and traded on a stock exchange.

43. (D) M3

Money supply measures vary by liquidity and scope. M3 is widely recognized as broad money because it encompasses M1 along with net time deposits of the banking system. By including long-term savings, it provides a comprehensive picture of the total monetary resources available in an economy. This measure is crucial for policymakers to analyze long-term inflationary trends and the overall health of the financial sector and the banking system's total resources.

44. (B) Both Statement I and Statement II are false.

Central bank credit controls are categorized based on their scope and objective. General or quantitative controls are designed to influence the total volume of credit available across the entire economy, regardless of the sector. Selective or qualitative controls are used to regulate the flow of credit into specific sectors or for particular purposes, such as speculative activities. Both statements are incorrect because they have swapped the definitions and functions of these two distinct types of monetary instruments.

45. (B) 1, 2, and 3

M1 is the narrowest and most liquid measure of money supply, representing the funds readily available for transactions. It consists of three primary components: physical currency and coins held by the public, net demand deposits maintained by individuals and businesses in the banking system, and other miscellaneous deposits held with the central bank. These assets are considered transaction money because they can be immediately used as a medium of exchange for goods and services.

46. (D) To meet the day-to-day cash withdrawal requirements of depositors

Fractional reserve banking allows commercial banks to lend a significant portion of their deposits while keeping only a fraction as cash. These reserves are essential to ensure that the bank can satisfy the daily demands of its customers who wish to withdraw cash from their accounts. By maintaining an appropriate level of liquidity, banks prevent potential bank runs and maintain public confidence in the safety and accessibility of the funds stored in the banking system.

47. (A) Selective Credit Control

Selective credit control is a qualitative monetary tool used by the central bank to influence the allocation of credit to specific sectors of the economy. Unlike quantitative tools that affect the total volume of credit, selective measures allow the central authority to encourage lending to priority areas, such as agriculture or small industries, while discouraging loans for speculative purposes. This ensures that the available credit supports productive economic activities and aligns with national developmental goals.

48. (B) Loan Company

Non-banking financial companies are categorized based on their primary business activities. A loan company is defined as a financial institution whose principal business

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is providing finance, whether by making loans or advances or otherwise, for any activity other than its own. This classification excludes asset finance companies, which focus on physical assets. Loan companies play an important role in providing diverse credit solutions to individuals and businesses across various sectors of the economy.

49. (B) Treasury Bills
The capital market is a platform for raising and trading long-term funds, involving instruments like equity shares, debentures, and corporate bonds. These assets typically have a maturity period of more than one year. Treasury bills, however, are short-term debt instruments issued by the government to manage its immediate cash needs, with maturities ranging from ninety-one to three hundred and sixty-four days. Therefore, treasury bills are considered primary instruments of the money market rather than the capital market.

50. (A) Legal Reserve Ratio (LRR)
The money multiplier represents the factor by which the total money supply increases for every unit of new deposits. Its value is mathematically determined as the reciprocal of the legal reserve ratio. A higher reserve ratio means banks must keep more funds aside and can lend less, resulting in a smaller multiplier. Conversely, a lower reserve ratio allows for greater credit expansion, demonstrating the inverse relationship between the reserve requirements and the capacity for money creation.

51. (C) Providing long-term capital for industrial expansion
As the apex institution, the central bank holds the cash reserves of commercial banks, supervises their operations, and facilitates inter-bank settlements through its clearing house function. These roles ensure the stability and efficiency of the banking system. However, providing long-term capital for industrial projects is not a function of the central bank. Such specialized developmental financing is usually provided by industrial development banks, capital markets, or specialized non-banking financial institutions within the broader financial sector.

52. (D) The process of credit creation
Credit creation occurs when commercial banks use their deposits to generate new loans, which in turn become new deposits. In this scenario, the bank creates a derivative deposit in the firm's name instead of handing over physical cash. This process increases the total money supply in the economy because the new deposit is considered part of the money supply. It illustrates how the banking system as a whole magnifies initial deposits into a larger volume of credit.

53. (C) Buy government securities in the open market
To increase the money supply and stimulate the economy, the central bank can engage in open market purchases. When the central authority buys government securities from banks or the public, it pays for them with new money, which directly increases the cash reserves in the banking system. With higher reserves, commercial banks have a greater capacity to create credit and lower interest rates, thereby encouraging borrowing, investment, and spending across all economic sectors.

54. (D) It regulates the money market in India.
The Securities and Exchange Board of India is the primary regulatory authority for the capital and securities markets. It focuses on protecting investor interests and ensuring fair practices among market intermediaries. However, SEBI does not regulate the money market; that responsibility lies with the central bank. This distinction ensures that short-term liquidity and long-term investment markets are managed by specialized and appropriate national regulatory bodies, each focusing on their respective domains of the financial system.

55. (A) P-3, Q-4, R-2, S-1
Money supply measures are structured from narrow to broad based on their components. M1 consists of currency, demand deposits, and other deposits with the central bank. M2 adds savings deposits in post office banks to the M1 total. M3 expands M1 by including net time deposits of the banking system. M4 is the broadest measure, combining M3 with all deposits held in post office savings banks, providing a complete view of national monetary resources.

56. (A) Banker to the government

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Thus, deposits are the bank's obligations to the public, while loans are its claims against others.

101. (D) Cheap money policy

An expansionary monetary policy is designed to stimulate economic growth and increase the money supply within the economy. This approach is often referred to as a cheap money policy because the central bank lowers policy interest rates and reduces reserve requirements. By making borrowing more affordable for businesses and consumers, the central authority encourages investment and spending. This strategy is typically used during periods of economic slowdown or recession to boost production, create jobs, and increase aggregate demand.

102. (B) Infrastructure Finance Company

Non-banking financial companies are categorized based on their asset deployment and primary business focus. An infrastructure finance company is defined as an institution that has at least seventy-five percent of its total assets dedicated to providing loans for infrastructure projects, such as power plants, roads, and bridges. These companies play a vital role in national development by providing long-term, specialized funding for large-scale projects that are essential for economic growth but often require more complex financing than traditional commercial loans.

103. (C) Liquidity to existing securities

The secondary market serves as a vital platform for investors by providing a continuous market for the trading of previously issued securities. Its most significant function is to offer liquidity, which means investors can quickly convert their shares or bonds into cash at a fair market price. While the primary market is for raising new capital, the secondary market ensures that these financial instruments remain attractive to investors by guaranteeing that there is a place to sell them whenever needed.

104. (D) Loans and Advances given

In banking accounting, liabilities represent the sources of funds that the bank owes to others, such as customer deposits and borrowings from the central bank. Assets represent the uses of those funds that generate income for the bank. When a commercial bank provides loans and advances to its customers, it creates a claim against the borrowers for future repayment plus interest. Therefore, these loans are classified as assets on the bank's balance sheet, not liabilities, as they are resources owned by the bank.

105. (B) P-3, Q-2, R-1, S-4

Different financial institutions play specialized roles in the national economy. The central bank is responsible for implementing monetary policy and maintaining price stability. Commercial banks focus on mobilizing deposits and creating credit for the general public. SEBI acts as the regulator for the securities market to protect investor interests. Non-banking financial institutions complement the system by providing specialized financial services like insurance or asset financing, creating a diverse and robust financial ecosystem to support various economic needs.

106. (A) Currency (notes and coins) held by the public

In the M1 measure of money supply, the component labeled 'C' represents the physical currency and coins that are in the hands of the general public. This is the most liquid part of the money supply as it can be used immediately for any transaction. It excludes any cash held by commercial banks in their vaults, which is considered part of the reserves rather than the money circulating among the public for day-to-day transactions and consumer spending.

107. (C) Open Market Operations - Quantitative Measure

Monetary policy tools are classified by how they affect the economy. Quantitative measures, such as open market operations, the bank rate, and reserve ratios, are designed to influence the total volume of money and credit available across all sectors. Qualitative measures, such as moral suasion and margin requirements, target the distribution and quality of credit for specific activities. Therefore, open market operations are correctly identified as a quantitative tool because they manage the overall liquidity in the banking system through security trades.

108. (A) Decrease the money multiplier and money supply

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credit multiplier and the total money supply. Consequently, the capacity for credit creation moves in the opposite direction to changes in the mandatory cash reserve requirement.

64. (D) Increase the repo rate and CRR
During periods of high inflation, the central bank adopts a contractionary monetary policy to reduce the total demand in the economy. By increasing the repo rate, the central authority makes borrowing more expensive for commercial banks, leading to higher interest rates for consumers. Simultaneously, raising the cash reserve ratio drains liquidity from the banking system, reducing the banks' capacity to create credit. These combined actions slow down money supply growth and help in stabilizing general price levels.

65. (C) 1, 2 and 4
The Securities and Exchange Board of India has broad responsibilities to ensure the healthy functioning of the capital market. Its key functions include regulating stock exchanges, preventing illegal practices like insider trading, and promoting investor education. However, conducting monetary policy operations is not a function of SEBI; that is the sole responsibility of the central bank. SEBI's focus remains on market integrity and investor protection, while the central bank manages liquidity and interest rates for the entire economy.

66. (A) Demand deposits held by the public (DD)
High-powered money represents the monetary base created by the government and the central bank. It includes currency held by the public and the various reserves maintained by commercial banks, such as vault cash and their deposits with the central authority. While demand deposits in banks are a significant part of the total money supply, they are not part of high-powered money itself; rather, they are the result of the credit creation process based on high-powered money.

67. (D) It helps in the settlement of mutual claims of commercial banks, economizing the use of cash.
The central bank's clearing house function is a vital administrative service for the banking industry. Since all commercial banks maintain accounts with the central bank, their inter-bank obligations can be settled through simple accounting adjustments. This centralized system significantly reduces the need for physical cash transfers between banks to resolve mutual debts. It enhances the efficiency of the national payment system, lowers transaction costs, and ensures a smooth and secure flow of funds across different banking institutions.

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68. (D) Loan or advance
An overdraft facility is a flexible credit service provided by commercial banks to their account holders, particularly business clients. It allows customers to withdraw more funds than they currently have in their accounts, up to a pre-approved limit. Because the bank is essentially lending its own funds to the customer and charging interest on the overdrawn amount, it is classified as a type of short-term loan or advance rather than a deposit or an agency service.

69. (C) Reduce the money supply and curb inflation
A contractionary or tight monetary policy is implemented by the central bank when the economy faces rising inflation. The goal is to reduce the total amount of money in circulation and make credit more expensive. By increasing policy rates and reserve requirements, the central bank discourages excessive spending and investment. These measures help to cool down the economy, lower the aggregate demand, and eventually bring the general price level back to a stable and sustainable target.

70. (B) 2, 3, and 5
Non-banking financial companies operate under different rules than traditional banks. They are registered under corporate law and can engage in activities like acquiring securities and providing specialized credit. Unlike banks, they are strictly prohibited from accepting demand deposits and cannot issue demand drafts or participate in the payment system. Furthermore, only specific categories of these institutions are legally permitted to accept public deposits, and they are regulated by the central bank rather than the general banking act.

71. (D) Bear market
Market sentiment plays a crucial role in determining stock price movements. A bear market is characterized by widespread pessimism among investors, leading to a sustained decline

Public sector banks are those where the majority ownership lies with the government, while private sector banks are owned by individual or corporate shareholders. Foreign banks are international institutions that operate branches in India. However, regional rural banks are specialized institutions specifically designed to serve the credit needs of rural and semi-urban areas, making the statement that they operate only in metropolitan areas completely incorrect.

116. (D) A liquidity trap

A liquidity trap occurs when interest rates are so low that people prefer to hold cash rather than invest in bonds or other financial instruments. In this situation, the public expects interest rates to rise in the future and prices to fall, so they wait for better opportunities. This makes traditional monetary policy ineffective because any increase in the money supply is simply absorbed into idle cash balances without stimulating borrowing, investment, or overall economic activity, leaving the economy in a stagnant state.

117. (C) Mortgage Guarantee Company

Non-banking financial companies can offer specialized services that support specific segments of the credit market. A mortgage guarantee company is an institution that provides guarantees for the repayment of home loans, particularly those backed by securitized assets. By providing this insurance-like protection, these companies reduce the risk for lenders and help to improve the availability of housing finance. This specialized role is distinct from companies that reconstruct bad debts or facilitate direct peer-to-peer lending between individuals on digital platforms.

118. (B) Right, but not the obligation, to buy a security at a specified price.

Financial derivatives like options provide investors with strategic ways to manage risk and speculate on price movements. A call option is a contract that gives the buyer the right to purchase an underlying security at a fixed price within a specific period. Importantly, the holder is not forced to buy; if the market price is lower than the option's fixed price, they can simply let it expire. This flexibility allows investors to benefit from rising prices while limiting their potential losses to the option's initial cost.

119. (D) Liquidity and store of value

The classification of various monetary assets into measures like M1, M2, and M3 is based on two fundamental economic characteristics. Liquidity refers to the ease and speed with which an asset can be converted into cash to make transactions. Store of value refers to the ability of an asset to maintain its purchasing power over time. Narrower measures prioritize immediate liquidity for transactions, while broader measures include assets that serve more as a store of value, like time deposits with longer maturity periods.

120. (C) 1, 3, and 5

Central banks perform several high-level functions to ensure a stable economy. They act as the banker to commercial banks, manage the nation's foreign exchange reserves, and have the exclusive authority to issue currency. However, they do not formulate fiscal policy, which is the responsibility of the government's finance ministry, nor do they provide direct retail banking services like lending to individual corporations. Their focus remains on the macro-management of the monetary system, liquidity, and overall price stability within the national financial framework.

121. (C) Controlling inflation through monetary policy

Commercial banks play a vital role in economic development by mobilizing small savings from the public and channeling them into productive investments. They facilitate capital formation and provide essential financing for trade and industry. However, controlling inflation through the formulation and implementation of monetary policy is not a function of commercial banks. That responsibility is reserved for the central bank, which uses its apex authority to manage interest rates and money supply to maintain price stability across the entire national economy.

122. (A) The central bank refusing to rediscount bills for a bank that is not adhering to its policies.

Direct action is a powerful qualitative credit control tool used by the central bank as a last resort. When a commercial bank consistently fails to follow the central bank's directives or engages in risky lending practices, the central

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penalties to ensure a level playing field for all market participants.

79. (C) High-powered money
High-powered money, also known as the monetary base, is the total liability of the monetary authorities. It consists of the physical currency held by the public and the various reserves maintained by commercial banks, including vault cash and deposits with the central bank. This is considered 'high-powered' because it serves as the foundation for the entire process of credit creation by banks. Changes in the monetary base lead to proportional changes in the total money supply through the money multiplier.

80. (B) P-2, Q-4, R-1, S-3
Monetary instruments serve distinct regulatory functions. The cash reserve ratio is the portion of deposits banks must keep with the central authority. The statutory liquidity ratio requires banks to hold a percentage of their liabilities in liquid assets like gold or government bonds. Open market operations involve the direct buying and selling of securities to manage liquidity. Margin requirements define the difference between a loan's value and the collateral's market price, serving as a selective tool for controlling speculative credit.

81. (B) Preventing solvent but temporarily illiquid banks from failing
As the lender of last resort, the central bank provides a critical safety valve that ensures the stability of the entire financial system. Its primary role is to provide emergency liquidity to commercial banks that are fundamentally sound but are facing a temporary shortage of cash due to sudden large-scale withdrawals. By stepping in when no other sources of funding are available, the central bank prevents bank failures and stops financial panics from spreading throughout the economy.

82. (A) Advancing a loan
Discounting a bill of exchange is a common method for commercial banks to provide short-term credit to businesses. When a bank discounts a bill, it pays the holder an amount less than the bill's face value before its maturity date. The difference represents the interest or discount charge. This transaction is essentially a loan where the bill serves as the security, allowing the business to receive immediate funds for its working capital needs while the bank earns interest income.

83. (C) It reduces the funds available for lending by commercial banks.
The statutory liquidity ratio is a mandatory requirement that forces commercial banks to invest a certain percentage of their deposits in liquid assets, primarily government securities. When the central bank increases this ratio, banks must divert more funds away from lending activities and into these approved assets. This action reduces the overall amount of credit available for consumers and businesses, helping to slow down the growth of the money supply and manage inflationary pressures within the national economy.

84. (D) Protect the interests of investors and regulate the securities market.
The establishment of the Securities and Exchange Board of India was a significant step toward modernizing the financial system. Its main objective is to create a transparent and fair environment for all participants in the capital market. By regulating stock exchanges and market intermediaries, SEBI ensures that investors are protected from fraudulent activities and unfair trade practices. This regulatory oversight is essential for promoting capital formation and maintaining the overall integrity and stability of the national securities market.

85. (D) A is false but R is true.
Financial institutions form a broad category that includes both banks and non-banking entities. While all banks are financial institutions, not all financial institutions are banks. Banking institutions are uniquely defined by their ability to accept demand deposits, facilitate payments through the clearing system, and create credit. Other financial institutions, like insurance companies or mutual funds, provide specialized services but do not perform these core banking functions, making the initial assertion incorrect while the definition provided is accurate.

86. (B) High-powered money and the total money supply

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The central bank serves as the primary financial agent and advisor to the national and state governments. In this capacity, it manages the government's cash balances and oversees the issuance and servicing of government securities. By managing the public debt, the central bank ensures that the government can meet its funding requirements while maintaining stability in the financial markets and aligning the debt management strategy with the broader objectives of monetary and fiscal policies.

57. (C) Accepting deposits and advancing loans
Commercial banks are defined by two core, primary functions that distinguish them from other financial institutions. First, they mobilize public savings by accepting various types of deposits, such as demand and time deposits. Second, they use these pooled funds to advance loans and credit to individuals and businesses for productive purposes. While banks perform many other agency and utility services, these two fundamental activities are the essence of their role as financial intermediaries in the economy.

58. (A) In an emergency situation when inter-bank liquidity dries up completely
The marginal standing facility is an emergency window provided by the central bank to commercial banks. It allows banks to borrow funds overnight when they face a severe liquidity shortage and the inter-bank market is exhausted. Banks can use this facility by pledging government securities within their statutory liquidity ratio limits, usually at a higher interest rate than the repo rate. This serves as a vital safety valve to prevent instability in the overnight money market.

59. (C) Holds not less than 90% of its net assets in the form of investment in group companies.
A core investment company is a specialized type of non-banking financial institution that primarily invests in the equity, debt, or loans of its own group companies. To be classified as a CIC, the entity must hold at least ninety percent of its net assets in such intra-group investments. Unlike other NBFCs that provide loans to the general public or invest in diverse securities, a CIC's primary purpose is to act as a holding company for a corporate group.

60. (A) Both A and R are true and R is the correct explanation of A.
The capital market is essential for economic growth as it channels long-term savings into productive industrial and commercial investments. The reason accurately explains this function by highlighting that the capital market deals with financial assets, such as shares and long-term bonds, which have maturity periods exceeding one year. This long-term focus provides companies with the stable capital needed for large-scale projects and infrastructure development, distinguishing it from the short-term focus of the money market.

61. (D) Deposits of international financial institutions like the IMF and World Bank.
Other deposits with the central bank are a minor component of the M1 money supply. These do not include the deposits of the government or the reserves of commercial banks. Instead, they represent demand deposits held by international financial organizations, foreign central banks, and certain domestic quasi-government institutions. These funds are considered liquid and part of the money supply because they represent claims that can be readily used for payments within the domestic financial system.

62. (A) Statement I is true, and Statement II is a correct explanation for it.
The central bank's exclusive authority to issue currency notes is a fundamental pillar of a modern monetary system. This monopoly ensures that the national currency is uniform, easily recognizable, and trusted by the public. Furthermore, by controlling the volume of currency in circulation, the central bank can effectively manage the total money supply and implement monetary policy. This centralized control is essential for maintaining price stability and ensuring the smooth functioning of the country's economic transactions.

63. (A) The cash reserve ratio
The ability of the banking system to create credit is mathematically tied to the reserve requirements set by the central bank. The cash reserve ratio dictates the minimum portion of deposits that banks must keep in a non-lendable form. A higher ratio leaves fewer funds available for lending, thereby reducing the

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its entire primary deposit. Every bank is legally required to keep a certain portion of its deposits as cash reserves. Therefore, an individual bank can only lend an amount equal to its excess reserves, which is the total deposit minus the mandatory reserve requirement, ensuring the bank maintains necessary liquidity.

94. (D) The central bank fixing credit quotas for different business activities.

Rationing of credit is a qualitative monetary policy tool that allows the central bank to control the total volume and direction of credit without necessarily changing interest rates. It involves setting specific limits or quotas on the amount of credit that commercial banks can provide for different sectors or business activities. This tool is particularly useful during periods of high inflation or financial stress to ensure that essential sectors receive adequate funding while speculative or non-productive lending is strictly curtailed.

95. (C) 1, 3, and 5

The regulation of India's capital market is primarily the responsibility of the Securities and Exchange Board of India. As the apex body, SEBI regulates business in stock exchanges and registers various market intermediaries like brokers to ensure market integrity. While the central bank manages the money market and the Ministry of Finance oversees overall economic policy, SEBI is the specialized agency focused on protecting investors and promoting orderly development in the securities market, ensuring that all trading activities remain fair and transparent.

96. (B) Asset Finance Company

Non-banking financial companies are often specialized to serve particular economic needs. An asset finance company is a specific type of institution whose primary business focus is to provide financing for physical assets that support productive economic activity. This typically includes loans for automobiles, tractors, heavy machinery, and earth-moving equipment. By facilitating the acquisition of these tangible assets, these companies play a crucial role in supporting the growth of the transport, agriculture, and manufacturing sectors within the national economy.

97. (B) Secondary Market

The secondary market, commonly known as the stock exchange, is a platform where investors buy and sell securities that have already been issued in the primary market. Its main function is to provide liquidity and marketability to these financial instruments, allowing investors to exit or enter investments easily. Because the transactions happen between investors rather than with the issuing company, the secondary market does not directly raise new capital for firms but is essential for maintaining investor confidence and price discovery.

98. (A) The government and the central bank

High-powered money is the foundational monetary base created by a country's monetary authorities. It consists of physical currency issued by the government and the central bank, along with the reserves that commercial banks are required to maintain with the central authority. These components represent the legal liabilities of the sovereign issuer and the central bank. This monetary base is the starting point for the expansion of the broader money supply through the lending activities of the commercial banking system.

99. (C) Controller of credit

Price stability is a primary objective of monetary policy, and the central bank achieves this by acting as the controller of credit. By using various quantitative and qualitative tools, the central authority manages the total amount of money and credit circulating in the economy. During inflationary periods, it restricts credit to cool down spending, and during deflations, it expands credit to stimulate growth. This careful management ensures that the general price level remains stable, protecting the purchasing power of the national currency.

100. (C) Statement I is true but Statement II is false.

A commercial bank's balance sheet reflects its financial position by equating total assets with total liabilities. For a bank, the money deposited by customers is considered a liability because the bank owes this amount back to the depositors. Conversely, loans and advances given to borrowers are classified as assets as they generate interest income and represent funds that will eventually return to the banking institution.

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The money multiplier is a fundamental economic concept that describes how the initial monetary base is expanded into the total money supply. High-powered money, consisting of currency and bank reserves, is multiplied through the fractional reserve banking system as banks lend out their excess reserves. This relationship shows that for every unit of high-powered money created by the central bank, the total money supply in the economy increases by a multiple, depending on the reserve requirements and public cash preferences.

87. (C) Acting as a custodian of national foreign exchange reserves

Central banks and commercial banks play distinct roles in the financial system. While both may discount bills and handle certain types of credit, the central bank has unique responsibilities as the apex authority. Only the central bank acts as the custodian of the nation's gold and foreign currency reserves, managing them to maintain exchange rate stability and ensure that the country can meet its international payment obligations. This macro-level function is never performed by commercial banks, which focus on individual and corporate services.

88. (A) A hybrid of time and demand deposits

Savings account deposits are a unique financial product that combines features of both demand and time deposits. They are partially like demand deposits because they are chequable and allow for some immediate withdrawals. However, they also resemble time deposits because banks often impose restrictions on the number or amount of withdrawals within a specific period and pay interest on the balance. This hybrid nature allows individuals to maintain liquidity for daily needs while earning a modest return on their saved funds.

89. (A) Above the Repo Rate

In the central bank's liquidity management framework, different interest rates form a structured corridor. The repo rate acts as the primary policy rate for managing normal market liquidity. The marginal standing facility is an emergency borrowing window for banks and is intentionally set at a higher interest rate than the repo rate. This ensures that banks only use the MSF as a last resort during severe cash shortages, while the lower reverse repo rate encourages banks to lend surplus funds back to the central authority.

90. (C) 1, 2 and 4

The capital market is a vital component of the financial system, focusing on long-term funds and productive investments. It consists of the primary market for new issues and the secondary market for trading existing securities. By connecting savers with companies needing long-term capital, it facilitates capital formation and economic growth. However, treasury bills are short-term instruments belonging to the money market rather than the capital market, as they have maturity periods of less than one year.

91. (D) Net time deposits with the banking system

Monetary aggregates are defined by the specific types of assets they include. M1 is a narrow measure consisting of currency and demand deposits, which are immediately available for transactions. M3 is a broader measure that includes everything in M1 plus net time deposits held in the banking system. These time deposits, such as fixed deposits, are held for a specific duration and are less liquid than demand deposits. Therefore, the difference between these two aggregates precisely represents the total volume of such time-bound deposits.

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92. (B) Supervisory and regulatory function

The central bank is the apex authority responsible for ensuring the health and stability of the entire banking system. Through its supervisory and regulatory functions, it has the legal power to issue binding directives to commercial banks regarding their operations, management, and credit policies. This includes setting standards for capital adequacy, risk management, and transparency. These powers are essential for protecting the interests of depositors and maintaining the overall integrity and smooth functioning of the country's financial institutions.

93. (C) A single bank can lend an amount exactly equal to its primary deposits.

Credit creation is a dynamic process that involves the entire banking system. While the system as a whole can expand deposits into a larger volume of credit, a single bank cannot lend out

The money creation process relies on funds staying within the banking system to be lent out repeatedly. If the public prefers holding physical currency instead of keeping money in bank deposits, the banks have fewer reserves to use for lending. This increase in the currency-deposit ratio reduces the money multiplier's value. Consequently, the banking system's ability to expand the initial monetary base is diminished, leading to a direct decrease in the total money supply within the economy.

109. (C) Ensure the solvency of commercial banks and provide a captive market for government securities.

The statutory liquidity ratio is a dual-purpose tool used by the monetary authority. First, it requires banks to maintain a portion of their assets in high-quality liquid forms like gold and government securities, ensuring they have sufficient funds to meet their liabilities. Second, by forcing banks to invest in government bonds, it creates a guaranteed or 'captive' market for public debt. This helps the government finance its deficits while allowing the central bank to manage the overall credit availability in the economy.

110. (A) Both A and R are true and R is the correct explanation of A.

The primary and secondary markets are deeply interconnected and essential for a healthy financial system. The primary market is where new capital is raised, but investors are more willing to buy new issues when they know they can easily sell them later. The secondary market provides this essential liquidity and marketability. Without an efficient stock exchange to trade existing securities, the primary market would struggle to attract investors, making it much harder for companies to raise the long-term capital needed for growth.

111. (A) False, as only specific categories of NBFCs are permitted to accept public deposits

Regulatory oversight for non-banking financial companies is very strict regarding public funds. Not all such institutions have the legal authority to accept deposits from the general public. The central bank only permits specific categories of NBFCs, which meet certain criteria like minimum credit ratings and capital adequacy, to accept public deposits with specific maturity periods. Most other NBFCs are strictly prohibited from this activity to protect the financial system and the interests of small depositors from potential risks associated with these institutions.

112. (B) Private Placement

Companies often raise capital through private placement when they want to avoid the high costs and lengthy procedures of a full public offering. In this process, the company offers its shares or bonds directly to a select group of sophisticated investors, such as insurance companies, pension funds, or high-net-worth individuals, rather than the general public. This method allows for a faster and more discreet way to secure large amounts of funding while complying with specific regulatory limits on the number of investors involved.

113. (B) M3

In analyzing the total liquidity and financial resources of a nation, economists often look at M3 as the primary indicator. Known as broad money, M3 includes physical currency, demand deposits, and net time deposits of the banking system. By encompassing both immediate transaction money and longer-term savings in banks, it provides the most comprehensive and widely used representation of the aggregate monetary resources available. This measure is crucial for central banks when formulating long-term monetary policy and managing overall economic stability.

114. (A) Controller of credit

By acting as the custodian of the cash reserves of all commercial banks, the central bank gains direct control over the banking system's liquidity. This centralized pool of reserves allows the central authority to implement various monetary policy tools effectively. For example, by changing the reserve requirements, the central bank can immediately influence the amount of money banks have available for lending. This power is fundamental to its role as the controller of credit, ensuring it can manage inflation and overall economic demand.

115. (C) 1, 2, and 3

India's commercial banking structure is diverse, consisting of public, private, and foreign banks.

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in share prices. In such a market, investors often expect prices to continue falling and may sell their holdings to avoid further losses. This is the opposite of a bull market, where prices are rising and investors are confident. Identifying these market cycles is essential for making informed investment decisions and managing portfolio risk.

72. (B) All deposits with post office savings banks (excluding National Savings Certificates)
M4 is the most comprehensive measure of the total money supply in an economy. It builds upon the M3 aggregate, which already includes currency and bank deposits. The key addition that makes M4 broader is the inclusion of all deposits held with post office savings organizations. While it excludes certain long-term savings like national savings certificates, M4 provides the most complete picture of all liquid and semi-liquid monetary resources available to the public across both banking and post office channels.

73. (C) Margin requirements
The central bank uses diverse tools to manage credit in the economy. Quantitative tools like the bank rate and reserve ratios affect the total volume of credit across all sectors. Qualitative or selective tools, such as margin requirements, are used to regulate credit for specific purposes. By changing the minimum down payment required for loans against securities, the central bank can discourage speculative borrowing without necessarily affecting the availability of credit for other productive sectors like agriculture or manufacturing.

74. (A) ₹5,000
The credit creation capacity of the banking system is determined by the money multiplier, which is the reciprocal of the required reserve ratio. With a reserve ratio of twenty percent, the multiplier is five. Therefore, an initial deposit of one thousand units allows the entire banking system to create a total of five thousand units of money through the repeated process of lending and derivative deposit generation, reflecting the expansive nature of fractional reserve banking systems.

75. (A) 3, 1, 2, 4
The evolution of India's financial sector is marked by several key milestones. The central bank was established in nineteen thirty-five to regulate the monetary system. This was followed by the nationalization of major commercial banks in nineteen sixty-nine to increase financial inclusion. Later, the securities regulator was formed in nineteen eighty-eight to oversee the capital markets. Finally, the marginal standing facility was introduced in twenty-one eleven as an emergency liquidity window, completing this chronological sequence of institutional development.

76. (B) Reverse Repo Rate
The reverse repo rate is a key instrument of monetary policy used to manage excess liquidity in the banking system. It is the interest rate at which the central bank borrows funds from commercial banks by providing government securities as collateral. When there is too much money in the market, the central bank increases this rate to encourage banks to park their surplus funds with it, thereby reducing the money supply and curbing potential inflationary pressures.

77. (C) State Bank of India (SBI)
Financial institutions are categorized based on their functions and regulatory frameworks. Insurance companies, specialized development banks, and unit trusts provide diverse financial services but do not operate as traditional commercial banks. The State Bank of India, however, is a full-service commercial bank that accepts demand deposits, provides transactional services, and is a central part of the national payment and settlement system. This distinguishes it from the various non-banking financial entities that focus on insurance, investment, or sectoral development.

78. (A) Trading of securities by a person who has access to non-public, price-sensitive information.
Insider trading is an illegal and unfair practice in the capital market that undermines investor confidence. It involves the buying or selling of a company's shares by individuals who possess confidential, material information that is not yet available to the general public. This allows them to profit from future price movements at the expense of other investors. Regulators strictly prohibit such activities and impose severe

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authority can take punitive measures. This includes refusing to provide traditional liquidity support, such as rediscounting bills of exchange. This strong disciplinary action forces the non-compliant bank to align its operations with national monetary policy objectives to regain the support of the apex banking institution.

123. (D) It must have at least one branch in a rural area.

To ensure the safety and stability of the non-banking financial sector, the central bank requires all such companies to meet specific registration criteria. These include being registered under the corporate law, maintaining a minimum level of net owned funds, and having a principal business that is financial in nature. While these companies are encouraged to support financial inclusion, there is no mandatory requirement for every such institution to have a branch in a rural area, as they can specialize in diverse urban or industrial financial services.

124. (D) S&P BSE Sensex

A stock market index provides a summary of the overall market performance by tracking the price movements of a selected group of representative shares. The S&P BSE Sensex is the benchmark index for the Bombay Stock Exchange, consisting of thirty large and well-established companies across various sectors. It is one of the oldest and most widely recognized indicators of the health of the Indian equity market. This is distinct from the Nifty fifty, which is the official index for the National Stock Exchange.

125. (C) 2, 1, 4, 3

The process of credit creation begins when a customer makes a new primary cash deposit in a commercial bank. The bank is required to keep a fraction of this deposit as a legal reserve and then lends out the remaining excess funds. This loan amount is eventually redeposited into the banking system, creating a derivative deposit. This cycle of lending and depositing repeats through multiple banks until the total amount of reserves equals the initial deposit and the capacity for further expansion is exhausted.

126. (A) Both Statement I and Statement II are true.

Monetary aggregates are classified based on their liquidity and scope. M1 and M2 are known as narrow money because they consist of assets like currency and demand deposits that are either immediately usable for transactions or can be converted very quickly. M3 and M4 are known as broad money because they include less liquid assets like time deposits and long-term savings. This classification helps policymakers analyze the different impacts of monetary resources on short-term transaction needs versus long-term economic investment and inflationary trends.

127. (A) Providing deposit insurance to the general public

The central bank serves as the primary financial partner for the government by maintaining its accounts, managing the public debt, and providing expert advice on monetary and financial matters. These roles ensure that the government's fiscal operations are smoothly integrated with the country's monetary system. However, providing deposit insurance to the public is not a direct function of the central bank. That specific responsibility is handled by a specialized agency, though it may operate under the broad regulatory umbrella of the central banking authority.

128. (A) Bills discounted

In the balance sheet of a commercial bank, assets represent items that are owned by the bank or represent a claim that will bring in future income. When a bank discounts a bill of exchange, it provides immediate cash to the holder and gains a legal claim to receive the full amount of the bill upon maturity. This claim is an asset because it is a resource that will eventually return funds to the bank, unlike deposits or borrowings, which are liabilities the bank owes.

129. (A) Reverse Repo auction

When the central bank identifies excess liquidity in the financial system that could lead to inflation, it takes steps to drain the surplus funds. A primary tool for this is the reverse repo auction. By increasing the reverse repo rate, the central authority encourages commercial banks to lend their idle cash back to the central bank. This process removes money from circulation, reduces the banks' capacity to create credit, and helps in maintaining a balanced level of liquidity within the overall national economy.

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130. (A) P-2, Q-4, R-1, S-3
The capital market involves various instruments with distinct characteristics. Equity shares provide ownership with voting rights, while preference shares are hybrid securities with priority in dividends but no voting. Debentures are debt instruments usually issued by companies and secured by assets. Bonds are another form of debt, frequently issued by the government to fund public spending. Together, these instruments allow for a wide range of investment options and financing methods, catering to the different risk and return preferences of investors and issuers alike.

131. (C) Savings deposits with Post Office saving banks
Measuring the money supply involves looking at different layers of liquidity. M1 is the narrowest measure, including currency and bank demand deposits. M2 is a broader aggregate that encompasses all the components of M1 plus the savings deposits held by individuals in post office savings banks. These post office savings are considered liquid but are not part of the commercial banking system. Therefore, the exact difference between M2 and M1 represents the total value of these specific savings held in the national postal network.

132. (D) Monetary Policy
Monetary policy is a comprehensive framework used by the central bank to achieve macroeconomic goals like price stability, high employment, and sustainable economic growth. It involves the use of various tools to manage the cost and availability of credit, the total money supply, and interest rates. By adjusting these variables, the central authority influences the level of aggregate demand in the economy. This is distinct from fiscal policy, which is managed by the government through taxation and spending to influence economic performance.

133. (C) A facility allowing a borrower to withdraw money up to a specified limit against the security of current assets.
Cash credit is a popular short-term financing option provided by commercial banks to businesses to meet their working capital needs. It functions like a flexible loan where a maximum credit limit is sanctioned based on the value of the borrower's current assets, such as stock or inventory. The borrower can withdraw and repay funds as needed within this limit and only pays interest on the actual amount utilized, providing a convenient and cost-effective way to manage daily business cash flows.

134. (C) Liquidity Adjustment Facility (LAF)
The liquidity adjustment facility is a primary tool used by the central bank for day-to-day management of liquidity in the banking system. It consists of repo and reverse repo operations that allow commercial banks to borrow or lend funds on an overnight basis. By adjusting the rates for these operations, the central bank directly influences the inter-bank lending rate and the short-term interest rates in the economy, ensuring that the banking system maintains a stable level of cash for its daily operations.

135. (A) Both A and R are true and R is the correct explanation of A.
While the secondary market is essential for financial stability, it does not directly create new capital for corporations. In the stock exchange, shares are traded between investors, and the money stays within the investment community rather than going to the company itself. The reason correctly explains this process, noting that companies only receive funds during the initial issuance in the primary market. However, the secondary market indirectly supports capital formation by making securities attractive and liquid for investors in the first place.

136. (A) Asset Reconstruction Company (ARC)
An asset reconstruction company is a specialized financial institution that focuses on managing the non-performing assets of banks and other financial institutions. Its primary business is to purchase bad loans or distressed assets from these lenders at a discount. The ARC then works to recover the debt through various methods, such as restructuring the loan or selling the underlying collateral. This process helps to clean up bank balance sheets, allowing them to focus on their core business of lending to productive sectors.

137. (C) Futures and Options
Financial derivatives are instruments whose value is based on or derived from an underlying asset, such as a stock, bond, or commodity.

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Futures and options are prime examples of derivatives traded in the capital market. They allow investors to hedge against potential price risks or speculate on future market movements without necessarily owning the underlying asset. These complex instruments enhance market efficiency and provide sophisticated ways for participants to manage their financial exposure and portfolio risk in a dynamic market environment.

138. (A) Legal Reserve Ratio

The legal reserve ratio is a fundamental constraint on the banking system's ability to create money. It represents the total percentage of deposits that banks are legally required to keep in a non-lendable form, typically consisting of the cash reserve ratio and the statutory liquidity ratio. The money multiplier is the mathematical inverse of this ratio, showing that as reserve requirements increase, the multiplier decreases, and the banking system's capacity to expand the money supply through lending is proportionally reduced.

139. (D) The Central Bank

The central bank plays a crucial role in maintaining the country's external economic stability. It serves as the official custodian of the nation's international reserves, which include gold holdings and foreign currency assets. By managing these reserves, the central bank can intervene in the foreign exchange market to stabilize the domestic currency's value and ensure that the country has sufficient liquid assets to settle its international debts and facilitate trade, protecting the nation's overall balance of payments position.

140. (C) 1, 2 and 4

The monetary policy framework is designed to manage the economy through interest rates and liquidity. The repo rate is the key policy rate used to signal the monetary stance. The primary goals are to ensure price stability while also supporting economic growth. Importantly, in a modern system, these decisions are often made by a specialized committee rather than the government alone, ensuring that monetary actions are based on professional economic analysis and are independent from short-term political considerations.

141. (C) Attract idle funds from the public by offering various deposit schemes

One of the most important roles of commercial banks is the mobilization of savings. By offering various types of accounts, such as savings, current, and fixed deposits, banks encourage individuals to move their idle cash into the formal financial system. This process pools small, scattered savings from millions of people, making these funds available for large-scale productive investments. This mobilization is essential for increasing the national savings rate and providing the necessary capital to drive industrial and economic development.

142. (D) Contraction of credit

A dear money policy is a contractionary stance taken by the central bank to curb excessive demand and inflation. By raising policy interest rates, the central authority makes borrowing more expensive, or 'dear,' for everyone in the economy. This discourages businesses from expanding and consumers from spending on credit, leading to a general contraction of credit availability. The goal is to slow down the circulation of money and stabilize prices by making it costlier to acquire and use borrowed funds.

143. (A) Providing liquidity

The primary market is dedicated to the creation and initial sale of new securities to investors. Its functions include origination, where new issues are designed, underwriting, where the sale is guaranteed by financial institutions, and distribution to the public. However, providing liquidity—the ability to easily buy and sell existing securities—is a function of the secondary market, or stock exchange. The primary market brings new assets into existence, while the secondary market ensures they can be traded effectively among investors.

144. (B) The amount of reserves to be maintained under CRR and SLR

Net demand and time liabilities represent the total amount of money that a commercial bank has collected from its depositors, after adjusting for inter-bank transactions. This figure is the fundamental base used by the central bank to calculate the mandatory reserves a bank must maintain. Both the cash reserve ratio and the

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ensuring that all material facts are transparently disclosed, the prospectus protects investors from fraud and helps maintain the integrity of the capital and securities markets.

188. (A) Net time deposits with commercial banks

M1 is the narrowest measure of the money supply, focusing exclusively on assets that are immediately available for transactions. It includes currency held by the public, demand deposits that can be accessed via cheque, and other miscellaneous deposits with the central bank. Net time deposits, such as fixed deposits, are not included in M1 because they are held for a specific duration and cannot be used directly for payments without a conversion process. These time deposits are instead included in the broader M3 measure of money supply.

189. (C) Increasing the Bank Rate

To combat inflation and slow down the economy, the central bank can take actions to increase the cost of credit. By raising the bank rate, the central authority increases the interest rate at which it lends to commercial banks. This forced increase in the banks' own cost of funds leads them to raise the interest rates they charge to their customers for loans. This makes borrowing more expensive for everyone, discouraging excessive spending and investment, and effectively reducing the total demand for money and credit.

190. (A) 1 and 2 only

The capital market is dedicated to long-term financing, involving instruments that represent ownership or long-term debt, such as shares and debentures. These assets are meant for investments lasting more than one year. In contrast, commercial paper and certificates of deposit are short-term, unsecured debt instruments with much shorter maturity periods. Therefore, they are considered primary instruments of the money market rather than the capital market. Understanding this distinction is essential for choosing the right market for different investment or funding needs.

191. (A) Deposits

In the financial structure of a commercial bank, liabilities represent the funds the bank has gathered and owes back to others. The primary and largest liability for any commercial bank is the total amount of deposits it has received from its customers. These deposits must be repaid upon demand or at a specified time. In contrast, items like cash in hand, investments, and the loans provided to customers are classified as assets because they are owned by the bank and generate future income and cash flows.

192. (B) Actions to reduce the money supply and increase the cost of credit

A tight or contractionary monetary policy is used by the central bank to control high inflation. This policy involves raising policy interest rates, increasing reserve requirements, and selling government securities to reduce the amount of cash in the banking system. These combined actions make credit more expensive and harder to obtain for businesses and consumers. By intentionally 'tightening' the money supply, the central authority aims to slow down spending and cool the economy, eventually bringing the general price level under control.

193. (B) NBFC-MFI (Micro Finance Institution) - Provides credit to low-income households

Non-banking financial companies are often specialized to serve underserved segments of the population. A microfinance institution is a specific type of NBFC that focuses on providing small, collateral-free loans to low-income individuals and households, particularly in rural areas. These institutions play a vital role in promoting financial inclusion and poverty reduction. Unlike banks, they cannot accept demand deposits or issue cheques, but their specialized knowledge and flexible lending procedures allow them to serve customers who are often excluded from the traditional banking system.

194. (A) Fair, transparent, and efficient

The regulatory framework managed by SEBI is designed to ensure that the capital market operates in a way that is fair for all participants, from large institutions to individual retail investors. By enforcing strict disclosure rules, SEBI ensures transparency, meaning all investors have access to the same important information at the same time. These regulations also aim to make the market efficient, meaning that prices quickly and accurately reflect all

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affect the total aggregate demand, the pace of economic growth, and the general price level or inflation rate in the country.

152. (A) Reserve Bank of India (RBI)
To ensure that all significant financial intermediaries are properly regulated, the law defines which institutions must register with the monetary authority. Any non-banking company that meets the 'fifty-fifty' test—where financial assets are more than half of its total assets and income from those assets is more than half of its total income—is considered an NBFC. Such entities are legally required to register with the Reserve Bank of India, which then supervises their operations to ensure the stability of the financial system.

153. (C) To provide a ready and continuous market for the trading of existing securities
A stock exchange is a centralized platform that facilitates the organized buying and selling of previously issued financial instruments like shares and bonds. Its primary purpose is to provide marketability and liquidity, ensuring that investors can trade their holdings quickly and at fair, transparent prices. This continuous market activity is essential for price discovery and investor confidence. While it doesn't directly issue new shares for companies, its existence is crucial for the efficient functioning of the broader capital market and for economic development.

154. (D) 25%
The relationship between the money multiplier and the legal reserve ratio is characterized by an inverse mathematical connection. To find the reserve ratio, one divides the number one by the multiplier value. When the money multiplier is four, the resulting legal reserve ratio is twenty-five percent. This means banks must keep one-fourth of their deposits as reserves, limiting the total expansion of credit in the economy. This illustrates how reserve requirements set by the central bank control the banking system's money-creating capacity.

155. (B) P-3, Q-1, R-4, S-2
The central bank performs several unique functions as the apex monetary authority. It has a monopoly on issuing the national currency and acts as the lender of last resort by providing emergency liquidity to solvent but cash-strapped banks. It settles inter-bank claims through its clearing house function and serves as the controller of credit to manage the total money supply and achieve economic goals. Together, these roles ensure that the country's financial system remains stable, efficient, and aligned with national objectives.

156. (B) Savers and borrowers
Commercial banks fulfill a vital role as financial intermediaries in the economy. They act as a bridge between individuals or households who have surplus funds (savers) and businesses or individuals who need capital for investment or consumption (borrowers). By mobilizing small deposits from millions of savers and channeling them into large-scale loans, banks ensure that the society's financial resources are allocated to productive uses, thereby driving economic growth and supporting the financial needs of all sectors within the national economy.

157. (C) Lowering the policy rates
During a recession, the central bank implements an 'easy' or expansionary monetary policy to stimulate economic activity. The main action is to lower policy interest rates, such as the repo rate, which makes borrowing cheaper for commercial banks and, subsequently, for consumers and businesses. This reduction in the cost of credit encourages more investment and spending, boosts aggregate demand, and helps the economy recover from the slowdown. This stance is the opposite of the tight policy used to fight high inflation.

158. (C) SEBI has the power to impose penalties and suspend trading.
The Securities and Exchange Board of India holds significant regulatory authority over the financial markets to ensure stability and transparency. It has the legal power to conduct investigations, impose monetary penalties on violators, and suspend the trading of securities if rules are breached. These quasi-judicial and quasi-executive powers allow it to effectively protect investor interests and maintain the integrity of the primary and secondary securities markets in the country, ensuring that all participants adhere to fair and ethical practices.

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159. (A) M4

M4 is the most comprehensive and broadest aggregate used to measure the total money supply. It includes all the components of the M3 measure, which covers currency and bank deposits. The defining feature of M4 is that it also includes the total amount of all deposits held with post office savings organizations, excluding certain long-term savings like national savings certificates. This makes M4 a complete measure of the liquid and semi-liquid financial resources available to the public across all official saving channels.

160. (A) Both A and R are true and R is the correct explanation of A.

The central bank is widely known as the apex bank because it sits at the very top of the nation's financial hierarchy. Its primary responsibility is to oversee, regulate, and control the entire banking and monetary system. The reason accurately explains this status, as the central bank possesses the ultimate authority to set the rules for all other banks, issue operating licenses, and act as a supervisor to ensure that the banking sector remains stable and serves the country's economic interests effectively.

161. (B) Making payments such as insurance premiums and collecting dividends

Commercial banks provide a range of agency services to their customers, acting as their representatives in various financial transactions. This includes collecting dividends and interest on behalf of the customer and making regular automated payments for items like insurance premiums, utility bills, or rent. These services add significant convenience for the customer and help the bank build a deeper, more integrated relationship with its clients. While secondary to core banking, these agency functions are a valuable part of modern commercial banking.

162. (A) Repurchase agreement

The term 'repo' is short for 'repurchase agreement,' which describes the specific nature of this financial transaction. When a commercial bank borrows money from the central bank at the repo rate, it sells government securities to the central authority with a legal agreement to buy them back at a specified price on a future date. This makes the borrowing a secured loan. The difference between the sale price and the repurchase price effectively represents the interest paid for the short-term funds.

163. (C) Pools money from investors to invest in securities, but is legally structured as a trust.

While both mutual funds and investment company NBFCs manage portfolios of securities, they differ in their legal structure and regulatory focus. A mutual fund is typically structured as a trust that pools money from many small investors to buy a diversified set of assets. The investors own units of the trust rather than shares in a company. In contrast, an investment company NBFC is a corporate entity that uses its own capital and borrowed funds to invest in securities.

164. (D) Equity Shares

Equity shares are the primary instruments through which a company raises permanent capital. When an investor buys an equity share, they are purchasing a piece of the company, giving them a proportional ownership interest. This ownership typically comes with voting rights and the right to share in the company's profits through dividends. Unlike debt instruments like bonds or debentures, equity shares do not have a fixed repayment date, and the shareholders bear the highest risk while also having the potential for significant returns.

165. (D) 1, 2 and 3

Commercial banks are essential for economic growth as they mobilize small, scattered savings from the community and channel them into productive sectors like industry and agriculture. They also act as the primary conduit for implementing the central bank's monetary policy by adjusting their own interest rates and lending volumes. However, banks do not directly formulate the government's fiscal budget; that is the responsibility of the ministry of finance. Banks' roles are focused on financial intermediation and credit management within the economy.

166. (B) Transaction money

M1 is the narrowest measure of the money supply and is frequently called transaction money. This is because it includes the most liquid assets—physical currency and demand deposits—

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that can be used immediately as a medium of exchange to pay for goods and services. Since these funds are readily accessible via cash or cheque without any conversion delay or penalty, they represent the primary pool of money that people use for their daily consumption and business transactions in the economy.

167. (D) Lender of last resort
The central bank's function as the lender of last resort is a vital pillar of financial stability. It prevents bank runs and financial panics by providing emergency liquidity to solvent banks that are facing a temporary cash shortage due to sudden, large-scale withdrawals. By ensuring that banks can always meet their obligations to depositors even during times of stress, the central bank maintains public confidence in the entire banking system, which is essential for preventing a localized crisis from spreading into a broader economic disaster.

168. (A) A fixed maturity period and a schedule of periodic repayments.
A term loan is a common credit product provided by commercial banks for financing long-term investments, such as machinery or vehicles. It is characterized by a specific duration or maturity period and a predetermined schedule for the repayment of the principal and interest, usually in monthly or quarterly installments. This structured repayment plan helps the borrower manage their long-term cash flows and provides the bank with a predictable stream of income, distinguishing it from demand loans or flexible credit facilities.

169. (C) To discourage borrowing against securities by increasing the borrower's contribution.
The central bank uses margin requirements as a qualitative tool to control the flow of credit for speculative purposes. A margin requirement is the difference between the market value of the collateral security and the maximum loan amount a bank can provide. By increasing this margin, the central bank forces the borrower to provide more of their own funds for the investment. This effectively discourages excessive borrowing against securities, helping to curb speculative bubbles in the stock market and maintain financial stability.

170. (C) 1, 3, and 4
The capital market serves several essential functions in the economy. It mobilizes long-term savings for productive investments, determines the prices of various securities through the forces of demand and supply, and facilitates the easy transfer of ownership between investors. These roles are fundamental for capital formation and market efficiency. However, the capital market is not focused on short-term working capital or overnight liquidity for banks, which are the primary functions of the money market and the central bank's liquidity facilities.

171. (D) Loans and Advances given
On the balance sheet of any financial institution, including an NBFC, liabilities are the sources of funds that the entity owes to others. This includes public deposits, funds raised through debentures, and borrowings from banks. Assets represent the uses of these funds that generate income. When an NBFC provides loans and advances to its customers, these represent claims for future repayment and are therefore classified as assets. This distinction is fundamental for understanding the financial structure and solvency of the institution.

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172. (B) The process of converting physical securities into an electronic format.
Dematerialization is a major modernization in the capital market that has made trading faster and more secure. It is the process where physical share certificates are converted into a digital or electronic format and held in a specialized account. This eliminates the risks associated with physical certificates, such as loss, theft, or forgery, and significantly reduces the paperwork and time required for transferring ownership. Today, almost all trading on major stock exchanges is done with dematerialized securities to ensure efficiency and transparency.

173. (C) Money multiplier
The money multiplier is a key economic indicator that shows the relationship between high-powered money and the total money supply. It measures how much the total volume of money in an economy (typically M3) increases for every unit of the monetary base (H) created by the central bank. The value of this multiplier is determined by the reserve requirements

statutory liquidity ratio are expressed as a percentage of a bank's NDTL. Therefore, any change in a bank's total deposits directly affects the level of reserves it must hold as non-lendable assets.

145. (B) 2, 4, and 5

Selective or qualitative credit control instruments are designed to influence the direction and quality of credit rather than its total volume. These include margin requirements, which control borrowing against securities, moral suasion, which uses persuasion to influence bank behavior, and the rationing of credit, which sets specific quotas for different sectors. These tools allow the central bank to target specific problem areas in the economy, such as speculative hoarding, without affecting the general availability of credit for essential and productive economic activities.

146. (A) Asset size is above a certain threshold, posing potential systemic risk.

As the non-banking financial sector grows, certain large institutions become vital to the overall stability of the economy. A systemically important NBFC is one whose asset size exceeds a specific threshold set by the regulator, typically based on its total balance sheet value. Because these large entities are deeply interconnected with the banking system and the broader markets, their failure could trigger a widespread financial crisis. Therefore, they are subject to stricter regulatory requirements and closer supervision by the central bank.

147. (C) Right, but not the obligation, to sell a security at a specified price.

A put option is a type of financial derivative that provides investors with protection against falling prices. It gives the holder the right to sell an underlying security at a fixed price within a certain time frame. This is a right, not an obligation, so the holder will only exercise the option if the market price is lower than the fixed price. This allows investors to hedge their portfolios against potential market downturns and lock in a minimum selling price for their assets.

148. (C) Statement I is true but Statement II is false.

High-powered money is the monetary base produced solely by the government and the central bank, consisting of currency and bank reserves. While this serves as the foundation for the entire monetary system, it is not equal to the total money supply. The total money supply is much larger because it includes the secondary deposits created by the commercial banking system through the process of lending. The relationship between the two is defined by the money multiplier, which magnifies the initial monetary base.

149. (C) Licensing, inspection, and control over mergers and amalgamations.

The central bank's supervisory role is essential for maintaining a healthy and competitive banking sector. It exercises this authority by setting high standards for entering the industry through licensing and by conducting regular on-site and off-site inspections to monitor financial performance. Additionally, the central authority must approve any major structural changes, such as bank mergers or acquisitions, to ensure they do not create monopolies or threaten the stability of the financial system or the interests of the general public.

150. (A) Time deposit

A fixed deposit is a common banking product where a customer invests a lump sum of money for a predetermined duration at a fixed interest rate. Because these funds are intended to remain in the bank for a specific 'time' and cannot be withdrawn on demand without a penalty, they are classified as time deposits. This distinguishes them from demand deposits in current or savings accounts, where the money is readily available for withdrawal or transactional purposes at any time via cheque.

151. (D) Policy actions taken by the central bank affect aggregate demand and inflation.

The transmission of monetary policy is the complex process through which changes in the central bank's policy rates and liquidity measures eventually impact the broader economy. It starts with the banking system adjusting its own lending and deposit rates, which then influences the borrowing and spending decisions of businesses and households. These changes in consumption and investment levels finally

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capital flows through different segments of the financial system to support economic activities.

181. (C) Issuing a directive to banks to not lend for speculative hoarding of commodities.

Qualitative credit controls are used by the central bank to influence the specific purposes for which credit is used, rather than its total amount. By issuing directives to banks to restrict loans for speculative activities like the hoarding of essential goods, the central authority can target specific inflationary pressures without making credit more expensive for productive sectors like manufacturing. These selective measures allow for a more precise management of credit to ensure it aligns with national economic priorities and maintains price stability.

182. (B) Businessmen and firms who have a high volume of transactions.

Current accounts are specialized demand deposit accounts designed for the needs of businesses, companies, and traders who have a high frequency of banking transactions every day. These accounts typically do not pay any interest on the balance and may even involve service charges. However, they offer the benefit of having no limits on the number of deposits or withdrawals and often come with an overdraft facility. This flexibility is essential for businesses to manage their daily operations, payments, and cash flow requirements efficiently.

183. (A) ₹20,000

The total credit created by the banking system is calculated by multiplying the initial primary deposit by the money multiplier. Since the legal reserve ratio is ten percent, the multiplier is ten. By applying this to the initial deposit of two thousand, the total amount of money created through the process of lending and derivative deposits reaches twenty thousand, reflecting the fractional reserve banking system's expansive capacity. This process magnifies the initial injection of cash into the system through multiple rounds of bank lending.

184. (D) The presence of a large informal financial sector.

For monetary policy to be effective, changes in central bank rates must quickly influence the interest rates charged to all borrowers. However, if a large portion of the economy relies on informal lenders who do not follow the central bank's rules, the policy's impact is significantly weakened. This informal sector operates outside the formal banking system and often ignores official policy signals. Therefore, the presence of a large unorganized financial sector hampers the transmission mechanism, making it harder for the central authority to manage inflation and growth.

185. (B) Both A and R are true but R is not the correct explanation of A.

Both statements provide correct facts about the relationship between the central bank and commercial banks. The central bank does act as a clearing house to settle inter-bank claims, and commercial banks are legally required to keep their cash reserves with the central authority. However, the reason why the central bank acts as a clearing house is to ensure efficient settlements and economize on cash transfers, not simply because banks keep their reserves there. While related, the reserve-holding function does not logically explain the clearing house function.

186. (A) To collect and provide a user's financial information from various entities with their consent.

An account aggregator is a new type of non-banking financial institution that facilitates the secure sharing of financial data. Its role is to pull together a customer's financial information from different sources, such as various bank accounts, insurance policies, and mutual funds, into a single platform. This is only done with the explicit consent of the user. By providing a comprehensive view of an individual's financial health, account aggregators help other financial institutions to provide better services, such as faster loan approvals and personalized investment advice.

187. (D) Prospectus

A prospectus is a vital legal document for any company planning a public offering. It contains all the essential information that a potential investor needs to make an informed decision, including the company's financial history, business goals, and the risks involved. This document must be filed with the regulatory authority and made available to the public. By

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set for banks and the public's preference for holding cash. A higher multiplier indicates a more efficient credit creation process within the commercial banking system.

174. (A) Both Statement I and Statement II are true.
The central bank occupies a central and superior position in a country's financial architecture, acting as the apex institution. In this role, its primary task is to manage the monetary system to ensure stability and growth. The second statement is also true because the central bank's various tools, such as interest rate changes and reserve requirements, directly affect how much credit is available and how much it costs for everyone in the economy. Together, these statements accurately describe the central bank's power and influence.

175. (A) 2, 1, 4, 3
The modernization of the Indian capital market followed a specific logical sequence. First, SEBI was given statutory powers in nineteen ninety-two to properly regulate the market. This led to the repeal of the old capital control act that same year. Shortly after, the National Stock Exchange was established in nineteen ninety-four to bring more competition and efficiency. Finally, screen-based trading was widely introduced, replacing the old physical trading floors and making the market much more accessible and transparent for all investors across the country.

176. (B) To manage liquidity in the banking system by buying or selling government securities.
Open market operations are a powerful quantitative tool used by the central bank to manage the amount of cash circulating in the banking system. When the central authority sells government bonds, it absorbs money from the market, reducing the banks' capacity to lend and helping to fight inflation. Conversely, buying bonds injects new cash into the system, encouraging lending and growth. This allows the central bank to adjust liquidity conditions precisely without directly interfering in the daily operations of individual commercial banks.

177. (B) It provides an online platform to match lenders with borrowers.
A peer-to-peer lending NBFC is a modern financial intermediary that uses digital technology to connect individual lenders directly with borrowers. Its primary role is to provide a secure and efficient platform for these transactions, facilitating credit assessment and loan disbursement. Crucially, the P2P platform does not lend its own money nor does it guarantee the repayment of loans. Instead, it earns fees for its services as an intermediary, providing an alternative credit source for borrowers and a new investment avenue for lenders.

178. (A) A high-quality, low-risk security issued by the government.
In the capital market, gilt-edged securities are government bonds that are considered the safest possible investments. Because they are backed by the full credit and authority of the national government, there is virtually no risk of default on interest or principal payments. These securities are highly liquid and are often used by commercial banks to meet their statutory liquidity requirements. Because of their safety and reliability, they are a fundamental part of the financial system and are highly sought after by conservative investors.

179. (C) Decrease
The total money supply is expanded through the process of bank lending, where deposits are used to create more credit. If people decide to withdraw their money from banks and hold it as physical currency, the banks have fewer reserves available to support their lending activities. This increase in the currency-deposit ratio reduces the money multiplier's effectiveness. As a result, the overall volume of money circulating in the economy decreases, as the banking system's ability to multiply the initial monetary base is significantly hampered.

180. (D) P-2, Q-4, R-1, S-3
Financial markets are classified by the age of the securities and the duration of the funds involved. The primary market is dedicated to new issues of shares and bonds. The secondary market is where existing securities are traded among investors. For durations, the money market handles short-term funds with maturities under a year, while the capital market is for long-term financing needs. Correctly matching these markets is essential for understanding how

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available information. This oversight is crucial for building investor trust and supporting stable economic growth.

195. (C) 1, 3, and 4
High-powered money, or the monetary base, consists of the liabilities of the monetary authority that can directly lead to the expansion of the money supply. Its primary components include physical currency held by the public, the vault cash that commercial banks keep on hand, and the deposits that banks maintain with the central authority. While demand deposits and time deposits are part of the broader money supply, they are not part of the initial monetary base itself, as they are created through the credit expansion process.

196. (B) The regulatory function
The central bank's responsibility to manage the total volume of money and credit in the economy is a core part of its regulatory function. This role is essential for achieving macroeconomic goals such as maintaining price stability and preventing financial crises. Through the use of various policy tools, the central authority regulates the activities of all commercial banks to ensure the entire monetary system remains sound and serves the nation's interests. This oversight is what defines the central bank as the apex regulator of the financial system.

197. (C) Margin
In the context of lending, a margin is the difference between the current market value of the collateral security provided by a borrower and the actual loan amount sanctioned by the bank. For example, if a borrower pledges securities worth one hundred units and the bank provides a loan of eighty units, the margin is twenty percent. The central bank can adjust these margin requirements to control speculative borrowing, as a higher margin forces the borrower to contribute more of their own capital for the investment.

198. (A) Issuing currency notes
Commercial banks perform a wide variety of financial activities, from their core business of deposit-taking and lending to providing specialized services like portfolio management, acting as trustees, and underwriting new securities. These functions help businesses and individuals manage their finances and support economic growth. However, issuing currency notes is not a function of commercial banks. That unique and vital power is exclusively reserved for the central bank, which ensures a uniform and controlled national currency system for the entire country.

199. (D) Quantitative tools affect all sectors, while qualitative tools are sector-specific.
The primary difference between the two types of monetary policy instruments lies in their scope and targeting. Quantitative tools, such as changes in the bank rate or reserve ratios, are designed to influence the total volume of money and credit across the entire national economy. Qualitative tools, also known as selective controls, are used to regulate the flow of credit to specific sectors or for particular purposes, such as curbing speculative lending in the stock market without affecting loans for agriculture or industry.

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200. (A) Primary Market, by financial institutions who guarantee the sale of new issues
Underwriting is a crucial service in the primary market that helps companies raise capital with more certainty. Financial institutions, known as underwriters, agree to buy any part of a new security issue that is not purchased by the general public. This guarantees that the issuing company will receive the total amount of funding it needs. By taking on the risk of the offering, underwriters provide essential support for new issues and ensure the smooth and successful operation of the capital-raising process in the primary market.

201. (D) A Commercial Bank
The ability to issue cheques drawn on oneself is a defining characteristic of a commercial bank. This function is a core part of being integrated into the national payment and settlement system. It allows customers to easily transfer funds and use their deposits for transactions. In contrast, non-banking financial institutions, such as NBFCs or mutual funds, are strictly prohibited from issuing such cheques. This distinction is one of the fundamental legal and operational differences between traditional banks and other types of financial intermediaries.

244. (D) Custodian of foreign exchange reserves

In its role as the custodian of the nation's foreign exchange reserves, the central bank is responsible for maintaining the external value of the domestic currency. It achieves this by carefully managing and safeguarding the country's holdings of foreign currencies and gold. When the exchange rate becomes too volatile, the central authority may intervene by buying or selling currencies in the international market. This oversight is vital for ensuring stability in the exchange rate, facilitating smooth international trade, and protecting the country's overall balance of payments position.

245. (A) 1, 2 and 4

Commercial banks are a fundamental part of the financial system, acting as a primary source of short-term credit and mobilizing public deposits that form a large part of the money supply. They also participate in the foreign exchange market to facilitate international trade. However, they are not regulated by SEBI, as their primary regulator is the central bank. Together, these banks ensure that capital flows to various productive sectors, supporting industrial growth and providing essential financial services that are necessary for the smooth functioning of a modern market economy.

246. (B) It restricts the bank's capacity to give loans.

The statutory liquidity ratio is a mandatory requirement that forces commercial banks to invest a portion of their deposits in low-yield, liquid assets like government bonds. When the central bank increases this ratio, banks have less money left over to provide as loans to businesses and consumers. This restriction directly reduces the credit creation capacity of the banking system, making it a powerful tool for the central authority to control the money supply and curb inflationary pressures by limiting the total amount of new credit entering the economy.

247. (D) RBI

The market for government securities is a vital part of the financial system that requires specialized oversight to ensure it functions smoothly and transparently. In India, the Reserve Bank of India is the primary regulatory body for this market and the institutions that operate within it, known as primary dealers. These dealers play a key role in the initial auction and subsequent trading of government bonds. By regulating these participants, the central bank ensures that the government can efficiently raise funds and that the market remains liquid and stable.

248. (A) NBFCs cannot be part of the payment and settlement system and cannot issue cheques on themselves.

Despite providing many similar financial services, there are deep legal and operational differences between banks and non-banking financial companies. A fundamental point of difference is that NBFCs are not integrated into the national payment and settlement system. This means they are strictly prohibited from issuing cheques drawn on their own accounts, a function that is exclusive to commercial banks. This distinction highlights the different roles these institutions play, with banks focusing on transaction services and credit, while NBFCs focus on specialized lending and diverse investment opportunities.

249. (C) Fast Track Issue (FTI)

To make it easier for well-established and compliant companies to raise capital, the securities regulator has introduced a streamlined process known as a fast-track issue. This allows certain listed companies that meet specific criteria regarding their financial history and disclosure record to offer new securities to the public without needing to go through the lengthy process of having their offer document extensively vetted by SEBI. This faster and more efficient method reduces the time and cost for these companies to access the capital market, supporting their growth and expansion plans.

250. (A) Perfectly liquid and can be used directly as a medium of exchange.

The M1 measure of money supply is designed to capture the total amount of money that is immediately available for transactions. It consists of physical currency and demand deposits, which are considered perfectly liquid because they can be spent right away without any delay, conversion cost, or loss in value. These assets serve as the primary medium of exchange in the economy, allowing businesses and households to pay for goods and services.

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A stockbroker is a vital professional intermediary in the capital market who facilitates the trading of securities for individual and institutional investors. Since ordinary people cannot trade directly on a stock exchange, they must go through a registered broker. Brokers provide the necessary platform for trading and often offer expert advice and research. They are regulated by the securities board to ensure they follow fair practices and protect their clients' interests, playing a crucial role in maintaining market liquidity and accessibility.

210. (A) Both A and R are true and R is the correct explanation of A.

In the measurement of the money supply, M1 is uniquely identified as the most liquid aggregate. This is because it includes only those components—physical currency and demand deposits—that are immediately usable as a medium of exchange. The reason accurately explains this status, noting that these assets can be used for any transaction without any delay, conversion cost, or penalty. This makes M1 the most direct indicator of the amount of money readily available for day-to-day spending and economic activity in the country.

211. (D) Reserve Bank of India

The central bank in India has the exclusive legal authority to issue all national currency notes, from the two-rupee note up to the highest denominations. This monopoly on note issue is a fundamental function that ensures uniformity in the currency and gives the central bank direct control over the total money supply. By being the sole issuer, the central bank can effectively manage liquidity and implement its monetary policy. The only exception to this is the one-rupee note, which is issued by the government.

212. (B) Channeling public savings into productive investments

Capital formation is the process of increasing a country's stock of productive assets, such as machinery and infrastructure. Commercial banks are essential to this process because they mobilize small, idle savings from millions of individuals and pool them into large amounts of capital. By lending these gathered funds to businesses for new projects and expansion, banks ensure that the society's financial resources are used to create new productive capacity. This transformation of savings into investment is a primary driver of long-term economic development.

213. (C) Monetary Policy

Open market operations are a classic and highly effective tool used by the central bank as part of its monetary policy. By directly buying or selling government securities in the open market, the central authority can increase or decrease the total amount of cash reserves in the banking system. This allows it to manage the money supply and influence interest rates without needing to pass new laws or change fiscal budgets. It is a flexible and market-based way to maintain economic stability and achieve monetary goals.

214. (D) It must have a minimum investment grade credit rating.

To protect the interests of small depositors, the central bank imposes strict requirements on any non-banking financial company that wishes to accept public deposits. One of the most important prerequisites is that the institution must have a current and valid investment-grade credit rating from a recognized agency. This rating provides a professional assessment of the company's financial health and its ability to repay its debts. This mandatory requirement ensures that only relatively safe and stable companies are allowed to handle public savings in the non-banking sector.

215. (C) 1, 3 and 4

The secondary market, or stock exchange, is a fundamental part of the financial system that provides a platform for trading existing securities. Its key features include providing liquidity, allowing for price discovery through market forces, and enabling investors to easily transfer ownership. However, it does not facilitate the issue of new securities, as that is the specific role of the primary market. Together, these markets work together to ensure that capital flows efficiently from savers to companies, supporting overall national economic stability and growth.

216. (A) High-Powered Money

High-powered money is the foundational monetary base created by the government and

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230. (A) P-3, Q-4, R-1, S-2
The money market involves several specialized short-term instruments. Call money is used for immediate borrowing and lending among banks. Treasury bills are short-term debt issued by the government. Commercial paper is an unsecured promissory note used by large corporations to raise quick funds. Certificates of deposit are negotiable instruments issued by banks to raise capital. Correctly matching these terms is essential for understanding how the financial system manages short-term liquidity and how different participants—governments, banks, and corporations—access the money market for their immediate cash requirements.

231. (D) Maintain stability and confidence in the financial system.
The primary goal of the central bank's function as the lender of last resort is to protect the entire financial system from collapsing during a crisis. By providing emergency liquidity to sound banks that are facing temporary cash shortages, the central bank prevents a single bank's failure from causing a widespread panic or a bank run across the country. This intervention ensures that the public remains confident in the safety and stability of their deposits, which is the foundation of a healthy and functioning modern economy.

232. (A) Only after a specified period of time
Term deposits, such as fixed or recurring deposits, are financial products where a customer agrees to keep their money in the bank for a predetermined duration. Because these funds are intended to be a long-term investment rather than for daily transactions, the bank pays a higher interest rate on them. Importantly, these are liabilities that the bank is legally obligated to repay only after the specified time has passed. This distinguishes them from demand deposits, which the bank must be prepared to pay back at any moment the customer asks.

233. (C) Benchmark policy rate (Repo rate)
In a modern monetary framework, the responsibility for setting the primary interest rate is given to a specialized body called the Monetary Policy Committee. This committee, consisting of experts from the central bank and the government, meets regularly to analyze economic data and decide on the benchmark policy rate, which is the repo rate. By fixing this rate, the MPC signals the monetary stance and influences the cost of credit across the whole economy, with the primary aim of maintaining price stability while supporting overall economic growth and development.

234. (D) Not available to depositors of NBFCs.
A fundamental difference between banks and non-banking financial companies lies in the protection provided to their depositors. While deposits in commercial banks are insured by the DICGC up to a certain limit, no such insurance facility is available for funds kept in NBFCs. This means that depositors in the non-banking sector bear a higher risk if the institution fails. This distinction is why NBFCs often must offer higher interest rates to attract depositors and why they are subject to different regulatory requirements regarding their financial health and credit ratings.

235. (A) Both A and R are true and R is the correct explanation of A.
Before SEBI was given statutory powers, the capital market lacked a strong legal regulator to enforce fair rules. This led to many unfair practices and frauds that made investors afraid to participate in the market. To fix this, the government established SEBI as a statutory body with the legal authority to oversee and discipline all market participants. The reason accurately explains this history, noting that the move was essential to rebuild investor confidence and create a transparent, well-regulated environment that could support the country's long-term capital needs and economic development.

236. (B) Monetary Base or High-Powered Money
The monetary base represents the total amount of money that has been directly created by the monetary authority, which is the central bank. It is the sum of all physical currency in circulation and the various reserves that commercial banks are required to maintain. This aggregate is considered the central bank's primary monetary liability. It is also called high-powered money because it serves as the essential foundation that is then multiplied through the banking system's

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223. (C) Inverse
The relationship between the legal reserve ratio and the money multiplier is characterized by an inverse mathematical connection. The money multiplier represents how much the banking system can expand deposits into credit, and it is calculated as the reciprocal of the reserve ratio. Therefore, if the central bank increases the reserve ratio, banks must keep more funds aside and can lend less, which directly reduces the value of the money multiplier. Conversely, lowering the reserve requirement allows for a greater expansion of credit and a higher multiplier value.

224. (C) Statement I is false but Statement II is true.
Open market operations are a classic monetary policy tool that involves the buying and selling of government securities, rather than foreign exchange, by the central bank. The first statement is therefore incorrect. However, the second statement accurately describes the objective of these operations, which is to manage the overall liquidity conditions in the economy. By trading these securities with banks and the public, the central authority can precisely adjust the amount of cash available in the banking system to achieve its monetary and economic goals.

225. (A) 4, 2, 1, 3
The development of India's formal financial system followed a clear historical path. The Imperial Bank was formed in nineteen twenty-one, later becoming the country's largest commercial bank. The central bank followed in nineteen thirty-five to oversee the entire monetary system. In nineteen sixty-four, the Unit Trust was created to encourage small investments in equity. Finally, SEBI was established as the primary capital market regulator in nineteen eighty-eight. This sequence reflects the gradual shift toward a more sophisticated and well-regulated national financial and monetary architecture.

226. (A) Using persuasion and informal suggestions to convince banks to cooperate with its policies.
Moral suasion is a qualitative tool of monetary policy where the central bank uses its influence and authority to guide the behavior of commercial banks without using mandatory rules. It involves informal methods such as letters, meetings, and speeches to explain the central bank's objectives and persuade banks to voluntarily follow certain credit policies, such as restricting loans for speculative activities. While not legally binding, it is highly effective because banks usually want to maintain a good working relationship with the apex monetary institution.

227. (B) TReDS Platform
The Trade Receivables Discounting System is a specialized digital platform designed to help small and medium enterprises manage their cash flow. It functions as an online marketplace where MSMEs can auction their trade receivables, or unpaid invoices, to various financiers, including banks and NBFCs. This allows the small businesses to receive immediate cash for their sales instead of waiting for months for their customers to pay. By facilitating the quick conversion of receivables into cash, TReDS plays a vital role in supporting the working capital needs of the small business sector.

228. (D) Debenture
In the capital market, instruments are divided into those that represent ownership and those that represent debt. A debenture is a classic debt instrument issued by a company to raise long-term capital from the public. When an investor buys a debenture, they are essentially lending money to the company for a fixed period at a specific interest rate. Unlike shares, which represent ownership and a share in profits, debentures represent a legal obligation for the company to repay the borrowed amount along with interest, regardless of its profit levels.

229. (C) Net time deposits with the banking system
Money supply measures are built in layers based on liquidity. M1 is the narrowest measure, consisting of the most liquid assets like currency and demand deposits. M3, known as broad money, is a much larger aggregate because it includes everything in M1 plus the net time deposits held in the banking system. These time deposits, such as fixed deposits, are less liquid than demand deposits because they are held for a specific duration. Therefore, the total value of these time-bound deposits is the exact factor that distinguishes M3 from the narrower M1 aggregate.

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259. (C) provides a comprehensive indicator of the total liquidity available through the banking system.

Broad money is frequently identified as a comprehensive indicator of the total liquidity available within an economy's banking infrastructure. It reflects the sum of highly liquid assets and those held for longer durations. Central banks monitor this aggregate closely to understand monetary trends and to determine the potential impact of liquidity on inflation and overall economic growth.

260. (A) The measures represent an increasing order of breadth, with M1 being the narrowest and M4 the broadest.

Monetary aggregates are organized in a hierarchy that reflects an increasing scope of included financial assets. The progression from the first measure to the fourth illustrates a transition from the narrowest, most liquid components to the broadest set of liabilities. This continuum helps economists analyze the different layers of wealth and spending potential available to the public across various institutions.

261. (D) It allows for direct control over the money supply and ensures uniformity.

Granting a single apex institution the exclusive right to issue currency is essential for ensuring uniformity across all notes and coins in circulation. This monopoly simplifies the monetary system and provides the central bank with a direct mechanism to regulate the total money supply. Such control is vital for managing economic stability and maintaining public trust.

262. (B) must be legally accepted as payment for settling debts.

Currency recognized as legal tender carries a statutory obligation that requires it to be accepted as a valid form of payment for all financial obligations. This status ensures that creditors cannot refuse the national currency when it is offered to discharge a debt. It provides the necessary legal foundation for the currency to function effectively as a medium of exchange.

263. (C) Providing short-term credit through Ways and Means Advances.

When a government faces temporary mismatches between its revenue collection and its planned expenditures, the central bank provides short-term credit facilities. These advances are specifically designed to bridge fiscal gaps and ensure that the government can meet its immediate payment obligations. This service highlights the central bank's role in supporting the smooth financial operations of the national authorities.

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264. (D) commercial banks that are solvent but face temporary liquidity shortages.

The central bank acts as a safety net for the financial system by providing emergency liquidity to commercial banks facing temporary cash shortages. This assistance is typically reserved for banks that are fundamentally solvent but cannot obtain funds elsewhere. By intervening, the central bank prevents localized liquidity issues from escalating into systemic crises that could undermine public confidence.

265. (A) To hold reserves, settle inter-bank payments, and prevent systemic financial crises.

As the primary institution for other banks, the central bank manages the required reserves of the banking sector and facilitates the clearing of inter-bank settlements. This central coordination ensures that the banking system remains stable and efficient. It allows for the orderly transfer of funds between institutions and provides a mechanism to mitigate risks inherent in financial operations.

266. (B) To manage inflation and promote economic stability through monetary policy.

The central bank influences the volume and cost of credit to achieve specific macroeconomic goals, such as price stability and sustainable growth. By manipulating credit conditions, the bank can curb inflationary pressures during periods of excess demand or stimulate activity during economic downturns. This function is critical for maintaining the overall health and predictability of the national economy.

267. (B) protect depositors' interests and ensure the stability of the financial system.

Supervision of financial institutions involves setting standards for capital adequacy and monitoring asset quality to minimize risks. The primary intent is to safeguard the interests of the depositing public and maintain the integrity of

lending process to create the much larger total money supply in the economy.

237. (C) Issue licenses and conduct inspections.
The central bank exercises its apex authority over the banking sector through a comprehensive system of supervision and regulation. It has the legal power to decide which institutions are allowed to operate as banks by issuing licenses. Furthermore, the central authority conducts regular on-site and off-site inspections to monitor each bank's financial health, risk management, and compliance with laws. This direct oversight is essential for ensuring that all banks operate safely, protect their depositors' interests, and contribute to the overall stability and integrity of the nation's financial system.

238. (D) 22%
The legal reserve ratio is the total percentage of deposits that commercial banks are required to maintain in a non-lendable form. It is the sum of the cash reserve ratio, which is kept with the central bank, and the statutory liquidity ratio, which is held by the banks themselves in high-quality liquid assets like gold or government bonds. Therefore, with a cash ratio of four percent and a liquidity ratio of eighteen percent, the combined legal requirement for banks is twenty-two percent of their total deposits.

239. (A) Cutting policy rates to boost growth.
An accommodating monetary policy stance is an expansionary approach taken by the central bank to support and stimulate economic growth. This typically involves cutting the primary policy interest rates, such as the repo rate, and ensuring that there is plenty of liquidity in the banking system. By making it cheaper and easier for businesses and individuals to borrow money, the central authority aims to encourage investment and consumer spending, helping to boost production and create jobs during periods of economic slowdown or low inflation.

240. (C) 1, 2 and 4
The central bank performs several unique, high-level functions that are essential for a stable economy. These include having a monopoly on issuing the national currency, acting as the primary banker and advisor to the government, and serving as the lender of last resort for the entire banking system. However, the central bank does not create credit for the general public, as that is the specific role of commercial banks. The central bank's focus is on managing the macro-monetary system and overall liquidity rather than providing individual retail banking services.

241. (D) Acquiring receivables of an assignor (factoring).
An NBFC-Factor is a specialized financial institution that provides a service known as factoring to help businesses manage their cash flows. Its primary business is to purchase the trade receivables—or unpaid invoices—of another company at a discount. By doing this, the factor provides the business with immediate cash for its sales, taking on the responsibility of collecting the full amount from the customers later. This service is especially valuable for small businesses that need steady working capital but have long payment cycles with their large corporate clients.

242. (A) Stock Exchange
The secondary market, or stock exchange, is the centralized and organized platform where the transfer of ownership of existing securities takes place between investors. Once shares or bonds are issued in the primary market, they can be bought and sold any number of times on the exchange. This platform provides the necessary infrastructure, rules, and technology for these transactions to happen quickly, safely, and at transparent market prices. This continuous trading facility is essential for providing liquidity to investors and maintaining a healthy and dynamic capital market.

243. (C) Currency-deposit ratio
The currency-deposit ratio is a key economic indicator that reflects the behavior and preferences of the general public. It measures the proportion of money that people choose to hold in physical currency versus the amount they keep in bank demand deposits. This ratio is important because it directly affects the money multiplier and the total money supply. If the public prefers holding more cash, the banking system has fewer reserves to use for lending, which reduces the overall expansion of credit and the total volume of money in the economy.

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202. (A) Market capitalization

Market capitalization is a common way to measure the total size and value of a public company. It is calculated by multiplying the current market price of a single share by the total number of outstanding shares the company has issued. This value changes every day based on the fluctuations in the stock price. It is used by investors to categorize companies into different groups, such as large-cap or small-cap, and represents the market's collective assessment of the company's total worth.

203. (C) Issued by the order or authority of the government.

Fiat money is a type of currency that does not have any intrinsic value and is not backed by a physical commodity like gold or silver. Instead, its value is established by government decree or order, making it legal tender for all debts and transactions. Its worth is based solely on the public's trust in the government's ability to maintain its value and the central bank's management of the money supply. Most modern national currencies, including notes and coins, are forms of fiat money.

204. (D) Statutory Liquidity Ratio (SLR)

The statutory liquidity ratio is a mandatory requirement set by the central bank for all commercial banks. It dictates the minimum percentage of their total deposits that banks must maintain in high-quality, liquid assets, such as physical cash, gold, or approved government securities. This ensures that banks have a safety cushion to meet their liabilities and also provides a stable market for government debt. It is a key tool used by the central authority to manage the overall liquidity and credit availability in the national economy.

205. (A) P-3, Q-4, R-1, S-2

A modern financial system relies on various specialized regulatory bodies to ensure stability and protect participants. The central bank oversees the banking and monetary system, while SEBI focuses on the securities and capital markets. IRDAI is responsible for regulating the insurance sector, and PFRDA manages the pension sector. Each of these bodies sets the rules and provides oversight for their respective areas, ensuring that the entire financial landscape is well-regulated and that the interests of all consumers and investors are protected.

206. (D) The deposits that flow out of one bank are received as deposits by some other bank.

In the analysis of credit creation, economists treat the entire banking system as a single entity. This is because when one bank provides a loan, the borrower usually spends that money, and it eventually gets redeposited into another bank within the system. This 're-circulation' of funds allows the banking system as a whole to create multiple rounds of derivative deposits based on the initial injection of cash. This interconnected flow of deposits is what enables the collective magnification of the total money supply in the economy.

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207. (A) Stimulate economic activity by making credit cheaper and more available.

A cheap money policy, also known as an expansionary monetary policy, is typically used when the economy is slow or in a recession. The central bank lowers policy interest rates and reduces reserve requirements to encourage commercial banks to lend more. This makes it easier and more affordable for businesses to invest in new projects and for consumers to spend on large purchases. By increasing the total demand in the economy, this policy aims to boost production, create jobs, and stimulate overall economic growth.

208. (B) A Nidhi company.

While most non-banking financial institutions are regulated by the central bank, certain specialized entities are exempt from registration with it. A Nidhi company is a type of entity in the Indian non-banking sector that works on the principle of mutual benefit among its members. Because these companies are already regulated by the Ministry of Corporate Affairs and have a limited scope of operations—only dealing with their own members—they do not need to register with the central bank. This distinction simplifies the regulatory burden for these smaller, community-based financial organizations.

209. (B) An intermediary who buys and sells securities on behalf of investors.

This narrow focus makes M1 the most direct and accurate indicator of the transaction money circulating in a country.

251. (B) It consists of currency with the public, demand deposits with the banking system, and 'other deposits' with the RBI.

M1 represents the narrowest and most liquid measure of money supply in an economy. It includes currency notes and coins held by the public, excluding bank reserves. Additionally, it encompasses demand deposits within the banking system and other deposits with the central bank, such as those from foreign central banks and international financial institutions.

252. (A) The degree of liquidity of the components.

Money supply aggregates are classified based on the ease and speed with which assets can be converted into cash without significant loss of value. Liquidity serves as the foundational principle for distinguishing between narrow measures and broad measures. Highly liquid assets allow for immediate transactions, while less liquid components are held for specific durations before being converted.

253. (C) Demand deposits are part of M1, while Post Office savings deposits are added to M1 to form M2, implying a difference in their liquidity.

Demand deposits are included in the narrowest measure of money supply because they are withdrawable on demand and chequable. Savings deposits with post offices are added to form a broader measure. While highly liquid, these post office deposits are not as perfectly liquid as demand deposits, primarily because they generally lack the facility of being chequable.

254. (D) Foreign central banks and international financial institutions.

Other deposits with the central bank constitute a specific component of the narrow money supply. These balances typically consist of deposits from quasi-governmental bodies, foreign central banks, and major international financial organizations. They exclude the deposits of the domestic government and commercial banks, focusing instead on institutional funds that are held for specific administrative or international settlement purposes.

255. (C) Because it incorporates an additional, albeit slightly less liquid, asset held by the public.

The expansion from the narrowest monetary aggregate to a broader measure involves including assets that possess high liquidity but are not as transactional as currency or demand deposits. By incorporating savings deposits held in post office savings banks, the measure accounts for a wider range of monetary resources available to the public for future spending or saving needs.

256. (B) Net time deposits with the commercial banking system.

The transition from narrow money to the most common measure of broad money occurs by adding net time deposits held within the commercial banking system. Unlike demand deposits, these time deposits are committed for specific periods and are not immediately available for transactions. Their inclusion reflects the total monetary resources that contribute to the overall liquidity of the financial system.

257. (D) It incorporates time deposits, which have withdrawal restrictions.

Liquidity decreases in broader monetary aggregates due to the inclusion of assets that cannot be instantly converted into cash. Time deposits, which characterize the broader measure, require being held for a fixed duration. Withdrawing these funds before the maturity period typically involves penalties or specific notice periods, making them less suitable for immediate transaction purposes compared to currency.

258. (A) M3 + All deposits with post office savings organisations (excluding National Savings Certificates).

The fourth monetary aggregate represents the most comprehensive measure of money supply by capturing nearly all monetary and near-monetary liabilities. It is calculated by taking the total value of broad money and adding all deposits held with post office savings organizations. However, specific long-term savings instruments, such as National Savings Certificates, are excluded from this total to maintain liquidity.

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the central bank. It represents the total monetary liability of these authorities and consists of physical currency held by the public, along with all the cash reserves that commercial banks keep, including vault cash and deposits with the central authority. This aggregate is called 'high-powered' because it serves as the essential raw material that the banking system uses to expand the total money supply through the process of multiple credit creation.

217. (C) Occupies the central position in the monetary and banking system.

The central bank is known as the apex bank because it stands at the very center of a nation's financial structure. Its unique status comes from its role as the ultimate regulator and supervisor of all other banking institutions. It has the exclusive power to issue currency, manage the government's finances, and implement the monetary policy that affects the entire economy. This central and superior position allows it to ensure the stability and integrity of the whole financial system, making it the most powerful and important banking institution in the country.

218. (A) Collecting dividends and interest on investments

Modern commercial banks provide several important agency services that go beyond traditional lending and deposit-taking. In this role, the bank acts as a formal agent for its customers, carrying out various financial tasks on their behalf. A common example is the collection of dividends and interest payments from the customer's various investments, which are then directly credited to their bank account. These automated services provide significant convenience for the customer and help the bank integrate more deeply into its clients' overall financial management.

219. (C) MSF rate and the Reverse Repo rate

In the central bank's framework for managing short-term liquidity, different interest rates are used to create a structured corridor for market rates. The marginal standing facility (MSF) rate acts as the upper bound or ceiling, providing emergency funds at a higher cost. The reverse repo rate serves as the lower bound or floor, where banks can safely park their surplus cash. The primary policy rate, or repo rate, typically stays in the middle. This corridor ensures that the overnight interest rates in the market remain stable and predictable.

220. (B) 2, 3, and 4

Non-banking financial institutions are a diverse group of entities that provide financial services without holding a full banking license. Common examples include investment companies that deal in securities, insurance companies that provide risk protection, and asset finance companies that fund physical equipment. While they are vital to the financial system, they do not accept demand deposits or participate in the payment system like commercial banks. Post office savings banks are also excluded as they are specialized government-run saving organizations rather than commercial non-banking companies.

221. (D) Ensure fair takeovers, protecting the interests of minority shareholders.

When a large investor or company tries to take control of a public corporation, it can significantly affect the value of the shares held by thousands of small investors. SEBI's takeover code is a set of regulations designed to ensure that such changes in ownership happen in a transparent and fair way. Its primary goal is to protect minority shareholders by ensuring they receive a fair price for their shares and have all the necessary information during a takeover attempt. This maintains investor confidence in the integrity of the capital market.

222. (D) The Ministry of Finance, Government of India

In India's unique monetary system, the responsibility for issuing physical currency is shared. While the central bank is the sole authority for all currency notes of higher denominations, the one-rupee note and all coins are officially issued by the Ministry of Finance on behalf of the central government. Despite being issued by the government, these notes and coins are put into circulation through the central bank's extensive network, ensuring that the entire supply of currency is managed in an integrated and efficient manner across the country.

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the financial system. Regular inspections and compliance checks ensure that banks operate prudently, thereby preventing failures that could disrupt the broader economic environment.

268. (A) By buying and selling foreign currencies to influence the exchange rate.
Central banks actively manage international reserves by conducting interventions in the foreign exchange market. By buying or selling foreign currencies, the bank can stabilize the domestic currency's value against international counterparts. This process is essential for maintaining stability in the external sector, supporting international trade, and protecting the economy from volatile fluctuations in global currency markets.

269. (C) Promoting financial inclusion and strengthening financial infrastructure.
In emerging economies, central banks go beyond traditional roles by actively promoting the expansion of banking services to underserved populations. This developmental focus involves building robust financial infrastructures and encouraging the growth of specialized markets. By fostering financial inclusion, the central bank helps integrate more citizens into the formal economy, which ultimately drives long-term social and economic progress.

270. (D) The supervisory and regulatory function.
Establishing specific requirements for capital adequacy and asset quality is a core part of the central bank's oversight duties. These norms are designed to ensure that commercial banks maintain enough capital to absorb potential losses and manage their risks effectively. Such regulations fall under the broader umbrella of supervisory functions aimed at ensuring the solvency of the banking sector.

271. (C) Accepting deposits and advancing loans.
Commercial banks serve as vital intermediaries by performing two fundamental activities that drive the financial system. They mobilize savings from the public by offering various deposit accounts and then channel these funds into the economy by providing loans to individuals and businesses. This dual role facilitates the efficient allocation of capital and supports continuous economic development and investment.

272. (B) Demand deposits are withdrawable on demand, while time deposits are held for a specific period.
The distinction between these two types of bank accounts lies in their liquidity and maturity. Certain deposits can be withdrawn by the account holder at any time and used for transactions via cheques. In contrast, other deposits are held for a predetermined duration and offer higher returns. The latter are less liquid because they involve restrictions on early withdrawals.

273. (D) creating new deposits through the act of granting loans, leading to a multiple expansion of credit.
When a bank provides a loan, it does not typically give out physical cash but instead credits the borrower's account with a new deposit. Because only a small fraction of deposits is kept as reserves, banks can use the remaining funds to issue more loans. This cycle results in a multiple expansion of the total money supply within the economy.

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274. (A) General utility services.
Beyond their core lending and deposit-taking roles, banks offer a variety of services designed for the convenience and security of their customers. These include providing secure storage for valuables and facilitating international trade through specialized financial instruments. Such activities are classified as general utility services because they enhance the overall value and functionality of the banking relationship for the public.

275. (C) The ability of a bank to create credit is fundamentally based on the deposits it accepts from the public.
The capacity of a commercial bank to expand credit is fundamentally tied to the volume of deposits it receives from savers. These initial deposits provide the necessary base from which banks can lend out funds while maintaining required reserves. Therefore, the strength and stability of the deposit mobilization process directly determine the extent to which banks can generate new credit.

276. (A) They aim to influence the overall volume of credit and money supply.

Quantitative tools are designed to regulate the total amount of money and credit available across the entire economy. These general instruments do not discriminate between different sectors but instead focus on adjusting the overall liquidity environment. By changing these parameters, the central bank can influence the general level of interest rates and the lending capacity of all commercial banking institutions.

277. (D) It makes borrowing costlier for commercial banks, leading to a contraction of credit.
When the central bank raises the rate at which it lends to commercial banks, the cost of funds for those banks increases. To maintain their margins, these institutions pass on the higher costs to their customers by increasing lending rates. This process discourages borrowing by firms and households, leading to a reduction in the total volume of credit in circulation.

278. (B) To absorb excess liquidity from the banking system.
Through open market operations, the central bank can directly manage the amount of cash in the banking system. When the bank sells government bonds to the public or commercial banks, it receives payments that effectively remove money from the economy. This absorption of liquidity is typically used as a contractionary measure to control inflation or reduce excess credit growth.

279. (C) To maintain a fraction of their liabilities in the form of specified liquid assets.
Banks are required by law to maintain a specific percentage of their total demand and time liabilities in the form of safe and liquid assets. These assets can include cash, gold, or government-approved securities. This requirement ensures that banks have a cushion of liquid resources to meet unforeseen demands and also helps channel funds into government-backed investment projects.

280. (D) an increase in the credit-creating capacity of commercial banks.
The cash reserve ratio dictates the portion of deposits that banks must keep with the central bank. Lowering this ratio releases more funds for the commercial banks, increasing their lendable resources. With more cash available to provide loans, the banking system's ability to create credit is enhanced, which typically leads to an expansion of the overall money supply in the economy.

281. (A) Qualitative tools regulate the direction of credit, while quantitative tools regulate the overall supply of credit.
Quantitative instruments focus on the total amount of money circulating in the economy, whereas qualitative tools are designed to influence the specific sectors where credit is used. While general controls affect the entire financial system uniformly, selective tools allow the central bank to encourage lending for productive purposes while discouraging credit flow toward speculative or inflationary activities in particular industries.

282. (B) Increasing the margin requirements for loans against shares.
To control excessive borrowing for the purchase of securities, the central bank can adjust the minimum proportion of a loan that a borrower must cover with their own equity. By raising this requirement, the bank makes it more difficult for individuals to use borrowed money for stock market speculation. This targeted approach helps maintain financial stability without affecting general credit availability.

283. (B) the central bank's persuasive influence over commercial banks.
This informal monetary policy tool involves the central bank using its authority and expertise to guide commercial banks toward specific actions. It relies on communication, meetings, and advice rather than legal mandates. By explaining its policy goals and expectations, the central bank seeks the voluntary cooperation of financial institutions to align their lending practices with the broader needs of the national economy.

284. (A) a directive.
When informal methods are insufficient, the central bank issues formal instructions that commercial banks are legally obligated to follow. These orders can specify the maximum amount of credit for certain sectors or mandate changes in lending criteria. Such directives are powerful selective tools that allow the central

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bank to exert direct control over the distribution of credit within the financial system.

285. (C) Consumer credit regulation.
Central banks can manage the demand for expensive goods by setting specific terms for the loans used to purchase them. By mandating higher down payments or shorter repayment periods, the regulator can effectively reduce the volume of consumer borrowing for items like cars or appliances. This selective control helps temper inflationary pressures arising from high levels of household debt.

286. (D) To detail how central bank policy actions influence aggregate demand and inflation.
The transmission mechanism explains the sequence of events through which changes in the central bank's policy instruments eventually impact real economic variables. It traces how adjustments in interest rates or liquidity flow through various financial markets and institutional channels. Understanding this process is essential for policymakers to predict the timing and magnitude of their actions on inflation and output.

287. (C) decrease market interest rates and stimulate consumption and investment.
Within the interest rate pathway, a reduction in the main policy rate typically triggers a downward trend in market interest rates. Lower borrowing costs encourage businesses to invest in new projects and prompt households to increase their spending on credit-based purchases. This stimulus helps boost the overall level of aggregate demand, supporting economic growth and employment during sluggish periods.

288. (B) the supply of bank loans.
The credit channel focuses on how monetary policy influences the willingness and ability of commercial banks to provide loans to the public. Policy tightening can reduce the reserves available to banks, leading them to restrict their lending activities. This reduction in the supply of credit particularly affects small businesses and individuals who rely heavily on bank financing for their daily operations.

289. (D) By boosting asset prices, which increases household wealth and stimulates spending.
Monetary policy can influence the economy by affecting the valuation of financial and real assets. When policy is eased, lower interest rates often lead to higher prices for stocks and property. This increase in wealth makes households feel more financially secure, which encourages higher consumption. Additionally, higher asset prices make it easier and cheaper for corporations to raise new investment capital.

290. (A) an appreciation of the domestic currency and a decrease in net exports.
In an open economy, higher domestic interest rates tend to attract foreign capital looking for better returns. This increased demand for the domestic currency causes it to appreciate in value. A stronger currency makes exports more expensive for foreigners and imports cheaper for domestic residents, which typically leads to a decrease in the country's net exports and overall demand.

291. (C) NBFIs cannot accept demand deposits from the public.
While non-banking financial institutions provide various financial services similar to banks, they lack a full banking license and cannot participate in the payment and settlement system. Specifically, they are prohibited from accepting deposits that are withdrawable on demand via cheques. This fundamental legal and functional difference ensures that banks remain the primary providers of the economy's most liquid transactional accounts.

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292. (A) Mobilizing savings and channelling them into investment.
These specialized institutions perform a vital function in the financial ecosystem by collecting savings from individuals and directing those funds toward long-term investments. They often specialize in sectors that are underserved by traditional banks, such as insurance or venture capital. By providing diverse investment avenues, these institutions help maximize the productive use of the nation's savings and capital formation.

293. (D) Insurance companies, mutual funds, and NBFCs.

The non-banking financial sector consists of a wide variety of specialized entities. These include insurance companies that provide risk protection, mutual funds that pool investor money for securities, and pension funds that manage retirement savings. These organizations, alongside non-banking financial companies, offer a broad spectrum of financial products that cater to the specific needs of diverse groups of investors and borrowers.

294. (B) their activities can have systemic implications for overall financial stability.
The growing size and complexity of non-banking financial institutions mean that their failure could have severe consequences for the entire financial system. Because they are often interconnected with commercial banks, risks in the NBFI sector can quickly spread, potentially causing a wider crisis. Regulation is therefore necessary to maintain financial stability, ensure fair practices, and protect the interests of consumers.

295. (C) By complementing bank services and enhancing competition and diversity.
These specialized entities improve the financial landscape by offering alternative products and services that complement the offerings of traditional commercial banks. Their presence fosters competition, which can lead to better service quality and lower costs for consumers. By catering to specialized market niches, these institutions ensure that a wider range of financial needs are met, increasing overall efficiency.

296. (D) To enable corporations and governments to raise new, long-term capital.
The primary segment of the capital market serves as the direct link between issuers of securities and the investing public. It is the platform where corporations and governments sell new stocks for the first time to raise capital. This market is fundamental to the process of capital formation by facilitating the flow of funds into productive investments.

297. (A) provide liquidity and marketability to existing securities.
The secondary segment of the capital market provides a venue where investors can trade securities that have already been issued in the primary market. While it does not provide new capital to the original issuer, it performs the crucial role of ensuring liquidity. By allowing investors to easily buy and sell holdings, the secondary market makes financial assets more attractive.

298. (B) primary market.
An initial public offering marks the first time a company offers its shares to the general public. This event takes place in the primary market because the company is creating and issuing new securities to raise fresh equity capital. The funds generated from an IPO go directly to the company, enabling it to finance its operations or pursue growth opportunities.

299. (B) Protecting the interests of investors and ensuring fair market practices.
Capital market regulators are tasked with creating a secure environment for investment. Their principal goals include safeguarding the interests of individual and institutional investors and promoting the orderly development of the market. By enforcing rules against fraud and ensuring that all participants have access to accurate information, regulators help build the public trust necessary for a thriving system.

300. (A) Enforcing mandatory disclosure norms for companies.
To ensure fairness and transparency, regulators require companies to provide regular information about their financial health. These disclosure norms allow investors to make informed decisions based on accurate data. Other measures, such as monitoring for insider trading and conducting surveillance, further protect the market's integrity by preventing unfair advantages and maintaining a level playing field for all participants.

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CHAPTER 08
Growth and Development Economics

1. Which of the following best defines Economic Growth?
(A) A process of structural and institutional changes that leads to overall well-being.
(B) A long-term increase in a country's real national income or per capita income.
(C) The equitable distribution of resources and income among the population.
(D) The achievement of specific social indicators like literacy and life expectancy.

2. Based on the statements provided, select the most appropriate option:
Statement I : Economic growth is a necessary but not sufficient condition for economic development.
Statement II : Economic development is a broader concept than economic growth, encompassing qualitative changes.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

3. Which of the following statements most accurately describes Economic Development?
(A) It is solely concerned with the increase in a country's Gross Domestic Product (GDP).
(B) It is a short-term phenomenon observed during business cycle upswings.
(C) It involves growth accompanied by progressive changes in the socio-economic structure.
(D) It is measured exclusively by the Physical Quality of Life Index (PQLI).

4. According to Adam Smith, the primary engine of economic growth is:
(A) Government intervention and planning.
(B) Population growth and diminishing returns.
(C) Colonial expansion and mercantilist policies.
(D) Division of labour and capital accumulation.

5. Which of the following is NOT considered a central element of David Ricardo's theory of development?
(A) The law of diminishing returns in agriculture.
(B) The role of profit as an incentive for investment.
(C) The process of 'creative destruction' by entrepreneurs.
(D) The eventual emergence of a stationary state.

6. The concept of a 'reserve army of labour' is central to the development theory of which economist?
(A) Adam Smith
(B) Karl Marx
(C) Joseph Schumpeter
(D) W.W. Rostow

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7. Match the items in List I (Theorist) with the corresponding items in List II (Key Concept):
List I:
P. Joseph Schumpeter
Q. David Ricardo
R. W.W. Rostow
S. Rosenstein-Rodan
List II:
1. Stages of Growth
2. Big Push
3. Innovation
4. Stationary State
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

8. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Schumpeter's theory of development places the entrepreneur at the

(D) GNI per capita, sanitation access, and gender equality.

26. The Human Development Index (HDI) does NOT include which of the following dimensions?
(A) A measure of income inequality.
(B) A long and healthy life.
(C) Access to knowledge.
(D) A decent standard of living.

27. Match the items in List I (Concept) with the corresponding items in List II (Associated Idea):
List I:
P. Absolute Poverty
Q. HDI
R. Balanced Growth
S. Unbalanced Growth
List II:
1. Albert O. Hirschman
2. Ragnar Nurkse
3. Inability to meet basic subsistence needs
4. United Nations Development Programme (UNDP)
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

28. Which of the following statements about the Sustainable Development Goals (SDGs) is incorrect?
(A) They are a set of 17 global goals established by the United Nations.
(B) They exclusively focus on environmental protection, excluding social issues.
(C) They have a target year of 2030.
(D) They apply to all countries, both developed and developing.

29. The concept of 'absolute poverty' refers to:
(A) A condition where household income is a certain percentage below the median income.
(B) The poverty level as perceived by the individuals themselves.
(C) A situation where individuals lack minimum resources for basic physical well-being.
(D) The unequal distribution of income within the lowest quintile of the population.

30. Consider the following measures:
(a) Lorenz Curve
(b) Gini Coefficient
(c) Headcount Ratio
(d) Poverty Gap Index
Which of the above are primarily used to measure income or wealth inequality rather than poverty?
(A) (c) and (d) only
(B) (a) and (b) only
(C) (a), (b), and (c) only
(D) (b), (c), and (d) only

31. In the context of social sector development, viewing expenditure on health and education as an 'investment' implies that:
(A) These expenditures are expected to enhance human capital and future productivity.
(B) These are costs that reduce a country's savings rate.
(C) These are purely consumption expenditures with no long-term benefits.
(D) These services should only be provided by the private sector for profit.

32. The 'Gender Inequality Index' (GII), published by the UNDP, measures gender disparities in which of the following key areas?
(A) Political participation, economic status, and educational attainment.
(B) Reproductive health, empowerment, and economic status.
(C) Life expectancy, literacy, and income.
(D) Access to technology, property rights, and social mobility.

33. Which of the following correctly pairs a development theory with its main proponent?
(A) Theory of Unlimited Supplies of Labour – W.W. Rostow
(B) Big Push Theory – Paul Rosenstein-Rodan
(C) Unbalanced Growth Strategy – Ragnar Nurkse
(D) Theory of Critical Minimum Effort – Albert O. Hirschman

34. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : David Ricardo predicted that economic growth would ultimately cease,

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(C) Knife-edge equilibrium.
(D) State of perpetual high growth.

18. Based on the statements provided, select the most appropriate option:
Statement I : In Joan Robinson's model of growth, capital accumulation is influenced by the animal spirits of entrepreneurs.
Statement II : Nicholas Kaldor's growth model emphasizes the role of income distribution between wages and profits in determining growth.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

19. Which of the following is an incorrect statement about Nicholas Kaldor's growth model?
(A) It assumes that the propensity to save out of profits is higher than out of wages.
(B) It incorporates a technical progress function.
(C) It assumes a fixed capital-labour ratio.
(D) The model links income distribution to the rate of growth.

20. The 'Golden Age' equilibrium in Joan Robinson's model occurs when:
(A) The rate of profit is maximized.
(B) The wage rate equals the marginal product of labour.
(C) The economy enters a stationary state.
(D) The growth rate of capital equals the growth rate of the labour force.

21. Consider the following features related to economic models:
(a) Treats technological progress as an exogenous variable.
(b) Emphasizes the role of human capital in long-run growth.
(c) Suggests that government policies can influence the long-run growth rate.
(d) Argues that knowledge has increasing returns.
(e) Predicts convergence of per capita incomes across countries.
Which of the above are characteristic features of Endogenous Growth Theory?
(A) (a), (c) and (e) only
(B) (b), (c) and (d) only
(C) (a) and (e) only
(D) (b), (d) and (e) only

22. What is 'disembodied' technical progress?
(A) Technological progress that is incorporated into new capital goods.
(B) An organizational or general improvement in knowledge that enhances productivity.
(C) An improvement in the quality of the labour force through education.
(D) Technological advancement that only affects the production of consumer goods.

23. Which of the following is the best example of 'embodied' technical progress?
(A) A new management technique that improves factory floor efficiency.
(B) The discovery of a new scientific principle published in a journal.
(C) A government program to improve general public health.
(D) The introduction of a more efficient computer system to replace an older one.

24. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Endogenous growth models challenge the convergence prediction of the neo-classical Solow model.
Reason (R) : By incorporating human capital and knowledge spillovers, endogenous models explain why rich countries might continue to grow faster than poor countries.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

25. The Physical Quality of Life Index (PQLI) combines which of the following three indicators?
(A) Per capita income, life expectancy, and infant mortality.
(B) Real GDP per capita, mean years of schooling, and expected years of schooling.
(C) Life expectancy, infant mortality, and adult literacy rate.

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(C) P-3, Q-1, R-4, S-2
(D) P-1, Q-2, R-3, S-4

42. In Karl Marx's framework, the 'mode of production' is composed of:
(A) The forces of production and the relations of production.
(B) Only the technological and productive capacity of a society.
(C) Only the social and property relations of a society.
(D) The superstructure and the base of a society.

43. Which of the following is NOT one of Rostow's five stages of economic growth?
(A) The traditional society
(B) The preconditions for take-off
(C) The drive to maturity
(D) The age of creative destruction

44. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : In the Solow model, an increase in the savings rate leads to a permanently higher rate of growth of per capita output.
Reason (R) : A higher savings rate leads to a higher level of capital per worker and thus a higher output per worker in the steady state.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is false but R is true.
(D) A is true but R is false.

45. The 'natural rate of growth' (Gn) in the Harrod-Domar model is determined by:
(A) The savings rate and the capital-output ratio.
(B) The animal spirits of the entrepreneurs.
(C) The growth of the labour force and the rate of technical progress.
(D) The rate of profit and the wage rate.

46. Consider the following components of the Human Development Index (HDI):
(a) Life expectancy at birth
(b) Infant mortality rate
(c) Mean years of schooling
(d) GNI per capita (PPP $)
(e) Gini coefficient
Which of the above statement(s) is/are correct components?
(A) (a), (c), and (d)
(B) (a), (b), and (c)
(C) (b), (d), and (e)
(D) (a), (c), and (e)

47. The idea that investment in one industry can create demand for the output of another industry (pecuniary external economies) is a core justification for which theory?
(A) The Big Push approach
(B) Unbalanced Growth
(C) Schumpeter's theory of innovation
(D) Ricardo's stationary state

48. A Lorenz curve that lies far away from the line of perfect equality indicates:
(A) A high degree of income equality.
(B) A high degree of income inequality.
(C) A high level of absolute poverty.
(D) A low level of economic development.

49. Based on the statements provided, select the most appropriate option:
Statement I : 'Embodied' technical progress refers to improvements in the quality of new capital goods.
Statement II : 'Disembodied' technical progress refers to improvements in the quality of the labour force.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

50. The concept of human capital in the context of economic development most accurately refers to:
(A) The stock of knowledge, skills, and health embodied in the labour force.
(B) The total population of a country.
(C) The amount of physical capital per worker.
(D) The financial assets owned by the citizens of a country.

51. Which of the following development indicators was developed by Morris D. Morris?
(A) Human Development Index (HDI)

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leading to a 'stationary state'.
Reason (R) : He argued that diminishing returns in agriculture would lead to rising costs, which would squeeze profits and halt growth.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

35. The fundamental difference between Economic Growth and Economic Development is that development:
(A) Is a quantitative concept, while growth is qualitative.
(B) Can occur without economic growth.
(C) Implies more output and changes in technical and institutional arrangements.
(D) Is measured solely by an increase in per capita GNI.

36. Arrange the following economic thinkers based on the approximate chronological order of their major contributions to development theory:
1. Karl Marx
2. Adam Smith
3. W.W. Rostow
4. Joseph Schumpeter
(A) 1, 2, 3, 4
(B) 2, 4, 1, 3
(C) 4, 2, 1, 3
(D) 2, 1, 4, 3

37. Consider the following statements about the Solow Growth Model:
(a) The model exhibits diminishing returns to capital.
(b) Long-run growth in per capita income is driven by exogenous technological progress.
(c) The model predicts conditional convergence of per capita incomes.
(d) The savings rate affects the level of per capita output but not its long-run growth rate.
Which of the above statements are correct?
(A) (a) and (b) only
(B) (c) and (d) only
(C) (a), (b), and (d) only
(D) (a), (b), (c), and (d)

38. The argument that a poor country is poor because it is poor, due to the circular constellation of forces, is known as:
(A) The Big Push theory.
(B) The vicious circle of poverty.
(C) The theory of unbalanced growth.
(D) The dependency theory.

39. Based on the statements provided, select the most appropriate option:
Statement I : The Balanced Growth theory, advocated by Ragnar Nurkse, suggests simultaneous investment in a wide range of industries.
Statement II : The primary justification for the Balanced Growth theory is to create mutual demand and overcome small market size.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

40. What is the central role of creative destruction in Schumpeter's theory?
(A) It is the process by which new innovations replace outdated technologies and business models.
(B) It describes the process of class conflict leading to the fall of capitalism.
(C) It refers to the government's role in dismantling monopolies to foster competition.
(D) It explains how diminishing returns in agriculture lead to a stationary state.

41. Match the items in List I (Growth Model) with the corresponding items in List II (Central Feature):
List I:
P. Harrod-Domar
Q. Solow
R. Kaldor
S. Endogenous Growth
List II:
1. Role of income distribution
2. Knowledge as a factor of production
3. Knife-edge problem
4. Exogenous technical progress and factor substitution
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2

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center of the growth process.
Reason (R) : The entrepreneur's key function is to introduce innovations, which disrupt the circular flow and lead to economic development.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

9. The take-off stage in W.W. Rostow's theory is characterized by:
(A) A society where agriculture dominates and social structure is rigid.
(B) The economy's shift towards mass consumption and durable consumer goods.
(C) The development of a manufacturing sector and rising productive investment.
(D) A state of equilibrium where growth is stagnant and population is constant.

10. The theory of 'unbalanced growth', advocated by Albert O. Hirschman, suggests that:
(A) Investment should be concentrated in strategically chosen sectors to create linkages.
(B) All sectors of the economy should grow simultaneously at the same rate.
(C) The government must provide a massive, coordinated investment program across all industries.
(D) Growth should be focused exclusively on agriculture before industrialization.

11. Consider the following statements related to the 'Big Push' theory:
(a) It argues for a high minimum amount of investment to overcome obstacles to development.
(b) The theory was primarily advocated by Albert Hirschman.
(c) It emphasizes the role of indivisibilities and external economies.
(d) It suggests a strategy of investing in a few key sectors sequentially.
Which of the above statements are correct?
(A) (a) and (c) only
(B) (b) and (d) only
(C) (a), (b) and (c) only
(D) (b), (c) and (d) only

12. The Harrod-Domar growth model primarily explains the relationship between:
(A) Growth and income distribution.
(B) Growth and investment.
(C) Growth and technological progress.
(D) Growth and population increase.

13. In the context of the Harrod-Domar model, what does the 'warranted rate of growth' (Gw) represent?
(A) The rate of growth at which the labour force is fully employed.
(B) The rate of growth required for the economy to reach a stationary state.
(C) The rate of growth at which firms feel their investment decisions were correct.
(D) The actual observed rate of growth in the economy.

14. The concept of 'knife-edge equilibrium' is a significant problem associated with which growth model?
(A) Solow Model
(B) Kaldor Model
(C) Robinson Model
(D) Harrod-Domar Model

15. Arrange the following stages of W.W. Rostow's model in chronological order:
1. The traditional society
2. The drive to maturity
3. The age of high mass-consumption
4. The take-off
5. The preconditions for take-off
(A) 1, 5, 4, 2, 3
(B) 1, 4, 5, 2, 3
(C) 5, 1, 4, 3, 2
(D) 1, 5, 2, 4, 3

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16. Unlike the Harrod-Domar model, the Solow model allows for:
(A) A fixed capital-output ratio.
(B) Substitution between capital and labour.
(C) A constant rate of savings.
(D) The absence of technological progress.

17. In the Solow growth model, in the absence of technological progress and population growth, the economy converges to a:
(A) State of constant decline.
(B) Steady state with zero per capita growth.

(B) Gender Inequality Index (GII)
(C) Physical Quality of Life Index (PQLI)
(D) Multidimensional Poverty Index (MPI)

52. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Balanced Growth strategy faces criticism for its demanding requirements on capital and coordination.
Reason (R) : It assumes that a developing country has the ability to mobilize vast resources for simultaneous investment.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

53. In Nicholas Kaldor's model, a higher propensity to save out of profits (compared to wages) leads to:
(A) A lower rate of economic growth.
(B) A decrease in the capital-output ratio.
(C) A positive relationship between profit share in national income and investment rate.
(D) A convergence towards a stationary state as predicted by Ricardo.

54. The 'Pasinetti Paradox' in the context of Cambridge growth models demonstrates that in the long run:
(A) The wage rate is determined by the marginal productivity of labour.
(B) The rate of profit depends only on the propensity to save of the capitalists.
(C) The economy will always be on a knife-edge path.
(D) Technological progress must be entirely labour-augmenting.

55. Consider the following statements about Joan Robinson's model of economic growth:
(a) It is considered a post-Keynesian model.
(b) It highlights the role of animal spirits in investment decisions.
(c) A Golden Age occurs when population growth rate equals capital accumulation rate.
(d) It assumes perfect competition and factor substitutability.
Which of the above statements are correct?
(A) (a), (b), and (c) only
(B) (b) and (d) only
(C) (a) and (c) only
(D) (a), (b), (c) and (d)

56. Which of the following is NOT a Sustainable Development Goal (SDG)?
(A) Universal Internet Access
(B) No Poverty (Goal 1)
(C) Zero Hunger (Goal 2)
(D) Climate Action (Goal 13)

57. Arrange the following events/publications in chronological order of their first appearance:
1. Publication of Adam Smith's The Wealth of Nations.
2. Introduction of the Human Development Index (HDI).
3. Formulation of the Harrod-Domar growth model.
4. Adoption of the Sustainable Development Goals (SDGs).
(A) 2, 1, 3, 4
(B) 1, 2, 3, 4
(C) 1, 3, 2, 4
(D) 3, 1, 4, 2

58. The Headcount Ratio in poverty measurement refers to:
(A) The proportion of the population that lives below the poverty line.
(B) The total number of poor people in a country.
(C) The average income gap of the poor from the poverty line.
(D) The number of people per household in poor families.

59. Which one of the following is an example of an improvement in the social sector?
(A) An increase in foreign direct investment.
(B) A reduction in the fiscal deficit.
(C) A boom in the stock market.
(D) An increase in the female literacy rate.

60. Match the items in List I (Poverty Concept) with the corresponding items in List II (What it Measures):

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(C) Only the labor force becomes more productive through education.
(D) New technology can only be introduced by scrapping old machines.

115. A key difference between the SDGs and the Millennium Development Goals (MDGs) is that the SDGs:
(A) Apply only to developing countries.
(B) Had a target year of 2015.
(C) Are universally applicable to all countries.
(D) Focus exclusively on poverty and hunger.

116. Which of the following is a measure of inequality, not poverty?
(A) Headcount Ratio
(B) Poverty Gap Index
(C) Multidimensional Poverty Index
(D) Gini Coefficient

117. The 'gender gap' in education refers to the disparity between:
(A) The quality of education in urban and rural areas.
(B) The number of public schools and private schools.
(C) The educational attainment levels of males and females.
(D) The curriculum for arts students versus science students.

118. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Karl Marx argued that capitalism contains the seeds of its own destruction.
Reason (R) : Competition forces capitalists to substitute capital for labor, leading to falling profit rates and class conflict.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

119. A 'stationary state' in Ricardian economics is a long-run equilibrium characterized by:
(A) Rapid economic growth and high profits.
(B) Continuous technological innovation.
(C) A rising rate of profit.
(D) Zero growth in population and capital.

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120. Consider the following characteristics of a growth model:
(a) Focus on animal spirits and uncertainty.
(b) Emphasis on income distribution between classes.
(c) The concept of a Golden Age equilibrium.
(d) It is considered a Post-Keynesian model.
These are features of the growth model developed by:
(A) Robert Solow
(B) Nicholas Kaldor
(C) Joan Robinson
(D) W.W. Rostow

121. The warranted growth rate (Gw) in the Harrod-Domar model ensures that:
(A) The labor force is fully employed.
(B) Savings are equal to investment ex-post.
(C) Entrepreneurs' expectations are fulfilled and they continue investing.
(D) The capital-output ratio remains constant.

122. Consider the following dimensions of human development:
(a) A long and healthy life
(b) Political freedom
(c) Knowledge
(d) A decent standard of living
(e) Environmental quality
Which of the above are the primary dimensions used in the Human Development Index (HDI)?
(A) (a), (b), (c)
(B) (a), (c), and (d)
(C) (b), (c), (e)
(D) (a), (d), (e)

123. The 'AK' endogenous growth model is distinct because it postulates:
(A) Diminishing returns to capital.
(B) Increasing returns to labor.
(C) The importance of exogenous shocks.
(D) Constant returns to capital.

124. The Physical Quality of Life Index (PQLI) is calculated as a simple average of indices of:
(A) Life expectancy, literacy, and per capita income.
(B) Life expectancy, infant mortality, and

69. In the steady state of the Solow model with positive population growth (n) and technological progress (g), the total output (Y) grows at a rate of:
(A) n
(B) g
(C) n + g
(D) 0

70. Which of the following best describes the 'preconditions for take-off' stage in Rostow's model?
(A) A static society with a ceiling on productivity.
(B) Application of science, infrastructure development, and a new entrepreneurial class.
(C) A surge in investment to over 10% of national income.
(D) Extension of technology over the whole range of economic activity.

71. Match the items in List I (Indicator) with the corresponding items in List II (Measurement Focus):
List I:
P. PQLI
Q. HDI
R. Gini Coefficient
S. Headcount Ratio
List II:
1. Income/Wealth Inequality
2. Proportion of population below poverty line
3. Basic well-being (non-income)
4. Human capabilities (health, education, income)
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-1, R-4, S-3

72. Increasing female literacy is considered a crucial part of social sector development because it is strongly correlated with:
(A) Lower infant mortality and lower fertility rates.
(B) Higher rates of industrial pollution.
(C) An increase in agricultural subsidies.
(D) A decline in the national savings rate.

73. The concept that economic development is fundamentally about expanding people's 'capabilities' and 'freedoms' is associated with:
(A) W.W. Rostow
(B) Karl Marx
(C) Amartya Sen
(D) Robert Solow

74. Consider the following statements related to measures of poverty:
(a) The Headcount Ratio is insensitive to the depth of poverty.
(b) The Poverty Gap Index reflects the intensity of poverty.
(c) The Gini coefficient is a direct measure of absolute poverty.
(d) The Lorenz curve provides a visual representation of poverty levels.
Which of the above statements are correct?
(A) (c) and (d) only
(B) (a) and (b) only
(C) (a), (b) and (d) only
(D) (b) and (c) only

75. The AK model is a simple form of which theory of economic growth?
(A) Harrod-Domar Model
(B) Classical Theory
(C) Neo-classical (Solow) Theory
(D) Endogenous Growth Theory

76. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Harrod-Domar model suggests that an economy can be unstable and tends to diverge from the full employment path.
Reason (R) : The model assumes perfect substitutability between capital and labor.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

77. A country is poor because it is poor. This statement best represents the idea of:
(A) The Big Push
(B) Creative Destruction

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List I:
P. Headcount Index
Q. Poverty Gap Index
R. Squared Poverty Gap Index
S. Gini Coefficient
List II:
1. Inequality of income distribution
2. Severity of poverty
3. Incidence of poverty
4. Depth/Intensity of poverty
(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-3, R-1, S-2

61. Endogenous growth theory differs from the Solow model because it:
(A) Assumes a fixed capital-output ratio.
(B) Predicts that all economies will eventually converge to the same income level.
(C) Treats technology as an internal factor rather than an external one.
(D) Ignores the role of savings in the growth process.

62. According to Marx, the fundamental cause of economic crises in capitalism is:
(A) Government intervention in the market.
(B) Under-consumption by the working class.
(C) The lack of entrepreneurial innovation.
(D) The tendency of the rate of profit to fall.

63. Based on the statements provided, select the most appropriate option:
Statement I : Economic growth is a multi-dimensional concept involving institutional change.
Statement II : Economic development is a uni-dimensional concept measured by per capita income.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

64. Which theorist argued that diminishing returns on land and population growth would squeeze profits and lead to a stationary state?
(A) Adam Smith
(B) David Ricardo
(C) Karl Marx
(D) Joseph Schumpeter

65. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Physical Quality of Life Index (PQLI) was criticized for not including any measure of income.
Reason (R) : Creators argued that income was reflected in life expectancy and literacy outcomes, making its inclusion redundant.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

66. Consider the following elements:
(a) Indivisibility in the production function.
(b) Indivisibility of demand.
(c) Indivisibility in the supply of savings.
(d) Sequential, unbalanced investment.
(e) The central role of 'animal spirits'.
Which of the above are the key components of the 'Big Push' theory proposed by Rosenstein-Rodan?
(A) (a), (b), and (c)
(B) (b), (d), and (e)
(C) (a), (c), and (d)
(D) (a), (b), and (e)

67. Hirschman's strategy of 'unbalanced growth' emphasizes the creation of disequilibria by prioritizing investments in sectors with:
(A) The lowest capital-output ratio.
(B) The highest current profitability.
(C) The strongest backward and forward linkage effects.
(D) The most stable and predictable demand.

68. The technical progress function in Kaldor's model relates the growth of capital per worker to:
(A) The distribution of income.
(B) The population growth rate.
(C) The rate of profit.
(D) The growth of output per worker.

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(B) The necessity of high tariffs to protect infant industries.
(C) The state's role in equalizing income distribution.
(D) The invisible hand guiding self-interest to promote social good.

88. The main difference between the growth models of Harrod-Domar and Solow lies in the assumption about:
(A) The production function and factor substitutability.
(B) The savings rate.
(C) The population growth rate.
(D) The role of government.

89. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Proponents of Unbalanced Growth argue that it is a more realistic strategy for developing countries.
Reason (R) : Developing countries lack the resources and administrative capacity for a simultaneous investment push across all sectors.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

90. In the equation of the Harrod-Domar model, G = s/v, 'v' represents the:
(A) Capital-output ratio.
(B) Propensity to save.
(C) Growth rate of labor.
(D) Rate of profit.

91. Match the items in List I (School of Thought) with the corresponding items in List II (Central Concept):
List I:
P. Classical
Q. Marxian
R. Neoclassical
S. Post-Keynesian
List II:
1. Role of income distribution in growth
2. Exogenous growth and convergence
3. Class struggle and surplus value
4. Capital accumulation and stationary state
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-4, S-1

92. The 'Poverty Gap Index' measures:
(A) The percentage of the population that is poor.
(B) The extent to which average poor person's income falls below the poverty line.
(C) The number of people below the poverty line.
(D) The inequality among the poor.

93. Investing in girls' education is a high-impact strategy. Which of the following is NOT a typically expected outcome?
(A) Lower fertility rates.
(B) Improved child health and nutrition.
(C) An immediate increase in the Gini coefficient.
(D) Increased female labor force participation.

94. Which of the following correctly describes a feature of the Kaldor growth model?
(A) It assumes a fixed savings rate for the entire economy.
(B) It concludes that the economy will reach a stationary state.
(C) It ignores the distribution of income between wages and profits.
(D) It treats technical progress as a function of capital accumulation.

95. Consider the following assertions about economic development:
(a) It is a broader concept than economic growth.
(b) It includes improvements in literacy, health, and well-being.
(c) It can be measured by a single indicator, the GNI per capita.
(d) It necessarily involves a reduction in income inequality.
Which of the above statements are correct?
(A) (a) and (b) only
(B) (c) and (d) only
(C) (a), (b), and (d) only
(D) All of the above

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96. The age of high mass-consumption is the final stage in the theory proposed by:
(A) Karl Marx
(B) W.W. Rostow
(C) Joseph Schumpeter
(D) David Ricardo

97. An economy is in a low-level equilibrium trap when:
(A) The rate of savings is too high, leading to a lack of demand.
(B) Any increase in per capita income is offset by population growth.
(C) Technological progress is too rapid for the labor force to adapt.
(D) The government's fiscal deficit is unsustainably large.

98. Based on the statements provided, select the most appropriate option:
Statement I : According to Schumpeter, innovation is the primary function of the entrepreneur.
Statement II : According to Schumpeter, the entrepreneur is primarily a risk-bearer.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

99. The AK model of endogenous growth does not exhibit diminishing returns to capital because:
(A) It assumes technology is fixed.
(B) It assumes population growth is zero.
(C) It broadly defines 'K' to include human capital.
(D) It is a short-run model where returns are always constant.

100. The concept that development should meet the needs of the present without compromising future generations is the core of:
(A) The Big Push approach.
(B) The Harrod-Domar model.
(C) Balanced Growth theory.
(D) Sustainable Development.

101. Which one of the following is an indicator of gender disparity?
(A) Human Development Index (HDI)
(B) Physical Quality of Life Index (PQLI)
(C) Gender Inequality Index (GII)
(D) Gini Coefficient

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102. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Solow model predicts 'conditional convergence'.
Reason (R) : Economies with similar savings and population rates will converge to the same steady-state level of income.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

103. The term 'relative poverty' refers to:
(A) A universal standard of poverty that is the same in all countries.
(B) The inability to meet basic biological needs for survival.
(C) Poverty caused by a sudden economic downturn or natural disaster.
(D) A condition of having significantly less income than other members of a society.

104. Which of the following is NOT a criticism of the balanced growth theory?
(A) It ignores the problem of limited market size in developing countries.
(B) It requires unrealistically large amounts of capital and administrative capacity.
(C) It overlooks the potential gains from specialization and trade.
(D) It is not suitable for countries with a severe shortage of resources.

105. Arrange the components of development thinking in a logical sequence from narrow to broad concept:
1. Economic Development
2. Sustainable Development
3. Economic Growth
4. Human Development

(A) 3, 4, 1, 2
(B) 1, 3, 2, 4
(C) 3, 1, 4, 2
(D) 4, 2, 1, 3

106. In the Solow model, the steady state is a situation where:
(A) Capital per worker and output per worker are constant.
(B) Output, capital, and labor are all constant.
(C) The savings rate equals the depreciation rate.
(D) The economy stops growing entirely.

107. Which of the following theories emphasizes that development is spurred by strategically creating imbalances in the economy?
(A) Balanced Growth Theory
(B) Big Push Theory
(C) Rostow's Stages of Growth
(D) Unbalanced Growth Theory

108. Match the items in List I (Author) with the corresponding items in List II (Key Idea):
List I:
P. Karl Marx
Q. Joan Robinson
R. Robert Solow
S. Adam Smith
List II:
1. Exogenous growth and conditional convergence
2. Division of labour and the invisible hand
3. Golden Age growth path
4. Class conflict and historical materialism
(A) P-1, Q-2, R-4, S-3
(B) P-4, Q-3, R-1, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-1, S-4

109. Which of the following statements about health and education in development is most accurate?
(A) They are purely consumption goods that drain resources from investment.
(B) They have no significant impact on economic development.
(C) They are human capital investments that increase productivity and growth.
(D) Their provision is solely the responsibility of private markets.

110. Consider the following statements related to the theories of economic development:
(a) Adam Smith focused on the division of labour as the engine of growth.
(b) Ricardo introduced the concept of diminishing returns in agriculture.
(c) Marx predicted the downfall of capitalism due to internal contradictions.
(d) Schumpeter highlighted the role of government planning in development.
(e) Rostow proposed a linear sequence of five stages of growth.
Which of the above statements are correct?
(A) (a), (b), (c), (d)
(B) (b), (c), (d), e)
(C) (a), (b), (c), (e)
(D) (a), (c), (d), (e)

111. The core argument of the 'Big Push' theory is that a large, comprehensive investment program is needed to:
(A) Take advantage of external economies and indivisibilities.
(B) Create demand for a country's exports.
(C) Reduce the national debt.
(D) Promote agricultural development exclusively.

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112. Based on the statements provided, select the most appropriate option:
Statement I : The Harrod-Domar model assumes a fixed-proportions production function.
Statement II : The Solow model assumes a variable-proportions production function.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

113. The natural rate of growth in Harrod's model is the rate that is:
(A) Determined by the savings rate.
(B) Permitted by the growth of the labor force and technological progress.
(C) Desired by entrepreneurs to keep them satisfied with their investments.
(D) Achieved when the economy is in a state of underemployment.

114. The term 'disembodied' technical progress, as used in growth models, signifies that:
(A) Productivity of all factors increases, regardless of their age or entry.
(B) The efficiency of capital goods improves over time.

(C) Vicious Circle of Poverty
(D) The Law of Diminishing Returns

78. The 'drive to maturity' in Rostow's model is the stage where:
(A) The economy has not yet developed the capacity to mobilize resources.
(B) The leading sectors shift towards durable consumer goods and services.
(C) A rigid social structure is the dominant feature.
(D) Modern technology and production methods are extended to all fronts of economic activity.

79. A key assumption of Joan Robinson's growth model is:
(A) Entrepreneurs' investment decisions are driven by the expected rate of profit.
(B) The technical coefficients of production are flexible.
(C) The distribution of income between wages and profits is fixed.
(D) The economy is always in a state of full employment.

80. Arrange the following growth models in the general chronological order of their development:
1. Solow Model
2. Endogenous Growth Models
3. Harrod-Domar Model
4. Smith-Ricardo Models

(A) 3, 4, 1, 2
(B) 4, 3, 1, 2
(C) 4, 1, 3, 2
(D) 1, 3, 4, 2

81. The term 'embodied technical progress' implies that newer capital is:
(A) Less productive than older capital.
(B) More productive than older capital.
(C) The same in productivity as older capital.
(D) Only productive when combined with highly skilled labor.

82. Which statement correctly differentiates PQLI from HDI?
(A) HDI includes an income component, while PQLI does not.
(B) PQLI includes an income component, while HDI does not.
(C) Both PQLI and HDI use identical indicators and weighting schemes.
(D) PQLI measures inequality, while HDI measures average achievement.

83. Based on the statements provided, select the most appropriate option:
Statement I : The Gini coefficient is derived from the Lorenz curve.
Statement II : A Gini coefficient of 1 represents perfect income equality.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

84. In the context of the Sustainable Development Goals (SDGs), what does Goal 5 specifically aim to achieve?
(A) Quality Education
(B) Clean Water and Sanitation
(C) Decent Work and Economic Growth
(D) Gender Equality

85. Which of the following is considered an aspect of social sector development?
(A) Increasing export earnings.
(B) Building a new stock exchange.
(C) Improving access to primary healthcare.
(D) Reducing corporate tax rates.

86. Consider the following elements associated with different growth theories:
(a) Division of Labour
(b) Creative Destruction
(c) Knife-edge Equilibrium
(d) Exogenous Technical Progress
(e) Human Capital
Which combination correctly represents concepts from Classical, Schumpeterian, and Endogenous growth theories respectively?
(A) (a), (c), (d)
(B) (a), (b), (e)
(C) (c), (d), (a)
(D) (b), (e), (c)

87. Adam Smith's advocacy for laissez-faire was based on his belief in:
(A) The ability of central planning to allocate resources efficiently.

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literacy.
(C) Infant mortality, per capita income, and sanitation.
(D) Literacy, health expenditure, and GNI.

125. The concept of creative destruction is integral to the development theory of:
(A) David Ricardo
(B) Karl Marx
(C) Joseph Schumpeter
(D) Robert Solow

126. A country experiences a rise in its real GDP per capita but no improvement in literacy, life expectancy, or equity. This represents:
(A) Economic development but not economic growth.
(B) Both economic growth and economic development.
(C) Neither economic growth nor economic development.
(D) Economic growth but not economic development.

127. If a policy raises the income of the poorest individuals who still remain below the poverty line, which measure will show improvement?
(A) The Poverty Gap Index
(B) The Headcount Ratio
(C) The Gini Coefficient
(D) The literacy rate

128. Based on the statements provided, select the most appropriate option:
Statement I : Unbalanced Growth focuses on developing SOC and DPA sequentially.
Statement II : Balanced Growth advocates for simultaneous investment in both SOC and DPA.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

129. In the Kaldor model, the equilibrium rate of growth is determined by the interaction of:
(A) The population growth rate and the depreciation rate.
(B) The technical progress function and the savings function.
(C) The animal spirits of entrepreneurs and the real wage rate.
(D) The warranted growth rate and the natural growth rate.

130. The convergence hypothesis, which suggests that poorer economies grow faster than richer ones, is a key prediction of:
(A) The Solow neoclassical model
(B) The Harrod-Domar model
(C) The Marxian model of development
(D) The Big Push model

131. Match the items in List I (SDG Goal Number) with the corresponding items in List II (Objective):
List I:
P. Goal 1
Q. Goal 4
R. Goal 10
S. Goal 13
List II:
1. Quality Education
2. Reduced Inequalities
3. Climate Action
4. No Poverty
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-3, S-4

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132. The iron law of wages suggested that in the long run, the real wage would tend towards:
(A) The marginal product of capital.
(B) A level determined by trade union bargaining.
(C) An ever-increasing path due to technology.
(D) The subsistence level.

133. Which of the following is NOT a form of innovation described by Schumpeter?
(A) Introduction of a new good.
(B) Introduction of a new method of production.
(C) An increase in the aggregate savings rate.
(D) The opening of a new market.

134. Consider the following growth models:
(a) Harrod-Domar Model
(b) Solow Model
(c) Kaldor Model
(d) Joan Robinson Model
(e) Endogenous Growth Model
Which models incorporate income distribution

between wages and profits as a key determinant of growth?
(A) (a) and (b)
(B) (b) and (e)
(C) (c) and (d)
(D) (a) and (e)

135. The argument that knowledge is a non-rival good and has positive externalities is a cornerstone of:
(A) Ricardian growth theory.
(B) Harrod-Domar model.
(C) Rostow's stages of growth.
(D) Endogenous growth theory.

136. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Improvements in public health are crucial components of social sector development.
Reason (R) : A healthier population is more productive and has a longer life expectancy, contributing to development.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

137. Which of the following correctly describes the relationship between the Lorenz curve and the Gini coefficient?
(A) The Gini coefficient is the slope of the Lorenz curve at its midpoint.
(B) The Lorenz curve is a graphical representation of the Gini coefficient.
(C) The Gini coefficient measures the area between the line of equality and the Lorenz curve.
(D) The Gini coefficient and the Lorenz curve measure two unrelated concepts.

138. Consider the following conditions related to W.W. Rostow's stages of growth:
(a) Rise in productive investment over 10% of national income.
(b) Development of substantial manufacturing sectors.
(c) Social and political framework exploiting expansion.
(d) Shift to consumer durables and services.
Which are necessary conditions for the 'take-off' stage?
(A) (a), (b), and (c)
(B) (b), (c), and (d)
(C) (a) and (d) only
(D) (a), (b), (c), and (d)

139. If a more efficient tractor allows more crops to be harvested with less fuel and labor, this represents what type of technical progress?
(A) Disembodied technical progress
(B) Exogenous technical progress
(C) Endogenous technical progress
(D) Embodied technical progress

140. Which development theory is most closely associated with the concepts of 'forward linkages' and 'backward linkages'?
(A) Balanced Growth Theory (Nurkse)
(B) Unbalanced Growth Theory (Hirschman)
(C) Big Push Theory (Rosenstein-Rodan)
(D) Stages of Growth Theory (Rostow)

141. The shift from a focus on economic growth to economic development signifies a recognition that:
(A) Higher income is the only goal of development.
(B) Industrialization is always the best path to development.
(C) Quality of life, health, education, and equity are also important.
(D) Development is an automatic process once growth begins.

142. In Marxian analysis, 'surplus value' is the:
(A) Economic profit earned by an entrepreneur through successful technological innovation.
(B) Economic rent collected by landowners from the use of scarce fertile land.
(C) Interest paid on borrowed capital used for financing industrial production.
(D) Value created by workers beyond their labor-cost, appropriated by the capitalist.

143. Based on the statements provided, select the most appropriate option:
Statement I : The Solow model treats

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technological progress as an exogenous variable.
Statement II : Endogenous growth models explain technological progress within the model.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

144. According to Nicholas Kaldor, the rate of profit in a growing economy is determined by:
(A) The marginal productivity of capital.
(B) The ratio of the rate of growth to the capitalists' propensity to save.
(C) The interest rate set by the central bank.
(D) The level of government spending.

145. The knife-edge problem of the Harrod-Domar model arises from the difficulty of equating:
(A) The savings rate and the investment rate.
(B) The warranted rate of growth and the natural rate of growth.
(C) The wage rate and the marginal product of labor.
(D) The domestic price level and the world price level.

146. A major contribution of Joan Robinson's growth model was its focus on:
(A) Problems of effective demand and the influence of animal spirits.
(B) The role of technological spillovers.
(C) Convergence of poor countries to income levels of rich countries.
(D) The five linear stages of development.

147. Which indicator is calculated using Life Expectancy, Mean Years of Schooling, Expected Years of Schooling, and GNI per capita?
(A) Physical Quality of Life Index (PQLI)
(B) Human Poverty Index (HPI)
(C) Human Development Index (HDI)
(D) Gender Development Index (GDI)

148. The idea that poverty is not just a lack of income, but a deprivation of basic capabilities, is central to the work of:
(A) Paul Rosenstein-Rodan
(B) David Ricardo
(C) W.W. Rostow
(D) Amartya Sen

149. Consider the following areas of development:
(a) Expansion of primary education
(b) Improvement in public healthcare
(c) Construction of new highways
(d) Promotion of gender equality
(e) Deregulation of banking
Which are typically considered part of social sector development?
(A) (a), (b), and (c)
(B) (c), (d), and (e)
(C) (a), (b), and (d)
(D) (a), (c), and (e)

150. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Physical Quality of Life Index (PQLI) uses a scale from 0 to 100 for its indicators.
Reason (R) : This scaling normalizes measurement units into a common comparable index.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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151. Which classical economist wrote An Inquiry into the Nature and Causes of the Wealth of Nations?
(A) David Ricardo
(B) Karl Marx
(C) John Stuart Mill
(D) Adam Smith

152. In Ricardian theory, as the economy grows, which group did Ricardo believe would gain the most?
(A) Landlords, due to rising rents from scarce land.
(B) Capitalists, due to rising profits.
(C) Laborers, due to rising real wages.
(D) The government, due to rising tax revenue.

153. Match the items in List I (Concept) with the corresponding items in List II (Associated Theory):
List I:

(C) Solow and Swan
(D) Smith and Ricardo

194. Consider the following characteristics:
(a) Diminishing returns to capital.
(b) Constant returns to scale.
(c) Exogenous technical progress.
(d) Fixed capital-output ratio.
(e) Prediction of conditional convergence.
Which are features of the Solow model?
(A) (a), (b), (c), and (d)
(B) (a), (b), (c), and (e)
(C) (b), (c), (d), and (e)
(D) (a), (c), (d), and (e)

195. The term gender budgeting refers to:
(A) A separate budget for women.
(B) A fund dedicated to women entrepreneurs.
(C) Analysis of the government's budget from a gender perspective.
(D) A policy of equal pay for equal work.

196. The Kuznets Curve hypothesis suggests that as a country develops, income inequality:
(A) First decreases, then increases.
(B) Continuously increases.
(C) Continuously decreases.
(D) First increases, then decreases.

197. The concept of human development as promoted by the UNDP is primarily about:
(A) Increasing national income.
(B) Building more infrastructure.
(C) Expanding people's choices and capabilities.
(D) Reducing the population growth rate.

198. The main difference in technology between Solow and Endogenous models is that the latter treats technology as:
(A) Unimportant for growth.
(B) An outcome of the economic system.
(C) A factor that always has diminishing returns.
(D) A fixed parameter.

199. Backward linkages refer to:
(A) Demand for a project's output that stimulates further investment.
(B) Negative environmental impacts of a project.
(C) Connections a project has with international markets.
(D) Demand for inputs that a project creates.

200. According to Adam Smith, which promote economic growth?
(a) Division of labour
(b) Free trade
(c) Capital accumulation
(d) Government intervention
(A) (a), (b), and (c)
(B) (b), (c), and (d)
(C) (a) and (d) only
(D) (a), (b), (c), and (d)

201. The transition from MDGs to SDGs represents a shift towards:
(A) A narrower agenda.
(B) Agenda focused solely on least developed countries.
(C) A universal, integrated, and comprehensive agenda.
(D) Agenda that abandons social goals.

202. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : In Harrod-Domar, if actual growth > warranted growth, the economy experiences inflation.
Reason (R) : Demand grows faster than supply, encouraging more investment.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

203. The 'traditional society' in Rostow's model is characterized by:
(A) High levels of investment and technology.
(B) A dominant service sector.
(C) The prevalence of democratic institutions.
(D) Hierarchical social structure and pre-Newtonian science.

204. In endogenous growth models, knowledge is a public good because it is:
(A) Rival and excludable.
(B) Non-rival and non-excludable.

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(D) Both analyzed the distribution of income among social classes.

163. The Gini coefficient has a value range between:
(A) -1 and +1
(B) 1 and 100
(C) 0 and 1
(D) 0 and infinity

164. In the drive to maturity stage of Rostow's model, an economy demonstrates:
(A) Its initial foray into industrial production.
(B) Its dependence on a few leading sectors.
(C) The dominance of services and durable consumer goods.
(D) Ability to apply technology across a wide range of resources.

165. Which of the following constitutes an investment in human capital?
(A) Buying new machinery for a factory.
(B) Constructing a new road.
(C) Funding a vocational training program for workers.
(D) Purchasing government bonds.

166. Consider the following characteristics of economic theories:
(a) Innovative entrepreneurs and 'creative destruction'.
(b) 'Surplus value' and 'class struggle'.
(c) 'Invisible hand' and specialization.
(d) 'Stationary state' and diminishing returns.
(e) 'Animal spirits' and investment decisions.
Which combination matches Schumpeter, Marx, and Smith respectively?
(A) (a), (b), and (c)
(B) (b), (d), and (e)
(C) (a), (c), and (e)
(D) (d), (a), and (b)

167. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Big Push theory argues for a coordinated investment program.
Reason (R) : External economies from simultaneous investments make projects profitable.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

168. The AK model of growth, where Y = AK, differs fundamentally from the Solow model because it lacks:
(A) Diminishing marginal returns to capital.
(B) A savings function.
(C) A role for capital.
(D) A steady state equilibrium.

169. If a new management technique allows a firm to produce the same output with the same capital and labor, this represents:
(A) Embodied technical progress.
(B) A movement along the production function.
(C) Disembodied technical progress.
(D) An increase in the capital-labor ratio.

170. Which of the following is an incorrect pairing of a concept and its proponent?
(A) Big Push Theory - Ragnar Nurkse
(B) Unbalanced Growth - A.O. Hirschman
(C) Critical Minimum Effort Thesis - Harvey Leibenstein
(D) Stages of Growth - W.W. Rostow

171. In the Solow model, a higher savings rate leads to:
(A) A higher long-run rate of growth of per capita output.
(B) A lower steady-state level of per capita output.
(C) No change in the steady-state level of per capita output.
(D) A higher steady-state level of per capita output.

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172. The term Social Sector Development primarily refers to programs and policies aimed at improving:
(A) Corporate governance and stock market performance.
(B) Health, education, and social welfare of the population.
(C) The balance of trade and foreign exchange reserves.
(D) Military strength and national security.

(C) The privatization of a profitable state-owned airline.
(D) The construction of a new Formula 1 racing track.

215. Consider the following statements regarding theories of growth:
(a) Marx predicted a rising rate of profit.
(b) Ricardo predicted the emergence of a stationary state.
(c) Schumpeter viewed entrepreneur as an innovator.
(d) Rostow allows countries to skip stages.
(e) Adam Smith advocated infant industry protection.
Which are correct?
(A) (a) and (d)
(B) (b) and (c)
(C) (c) and (e)
(D) (b) and (e)

216. The concept of capital widening refers to:
(A) Increase in capital to equip a growing labor force.
(B) The increase in the capital per worker ratio.
(C) Replacement of old capital with productive capital.
(D) Point where capital accumulation ceases.

217. The main argument of Albert Hirschman's theory of unbalanced growth is that:
(A) Country should focus on exporting a single commodity.
(B) All sectors must grow in unison.
(C) Development is stimulated by creating tensions and disequilibria.
(D) Government must plan and coordinate all investment.

218. The Gender Inequality Index (GII) reflects disadvantages in three dimensions. Which is NOT one?
(A) Access to property and land rights
(B) Reproductive health
(C) Empowerment
(D) Labour market

219. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : The Solow model is considered a neoclassical growth model.
Reason (R) : It incorporates diminishing returns and factor substitutability.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

220. The Poverty Gap is defined as:
(A) The number of people living below the poverty line.
(B) The average amount by which income falls short of the poverty line.
(C) The ratio of the rich to the poor.
(D) The geographical concentration of poverty in a region.

221. Which development theory uses the analogy of an airplane's journey?
(A) Big Push Theory
(B) Unbalanced Growth Theory
(C) Rostow's Stages of Growth
(D) Schumpeter's Theory of Innovation

222. The PQLI and HDI are similar in that they both:
(A) Include an income component.
(B) Use infant mortality as a key indicator.
(C) Were developed by the World Bank.
(D) Are composite indices of development.

223. According to Kaldor's growth model, the share of profits in national income will be higher if:
(A) The investment-to-output ratio is higher.
(B) The propensity to save out of wages is higher.
(C) The economy is in a stationary state.
(D) The technical progress function is linear.

224. Consider the following statements:
(a) Economic growth is a subset of economic development.
(b) Economic development is qualitative and quantitative.
(c) Increase in life expectancy is an indicator of development.
(d) All growing economies are developing.
Which are correct?
(A) (d) only

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growth.

183. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Endogenous growth theory suggests that long-run growth differences can persist.
Reason (R) : Human capital and R&D can generate increasing returns, preventing convergence.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

184. The 'trickle-down' theory of development suggests that:
(A) Benefits of growth flow from the wealthy to the poor.
(B) Benefits of growth should be actively redistributed.
(C) Development should start with a focus on agriculture.
(D) Investment in human capital is the primary driver.

185. In Joan Robinson's model, the possible rate of growth is determined by:
(A) The level of government spending.
(B) The interest rate set by the central bank.
(C) The conditions of labor supply and technical progress.
(D) The terms of international trade.

186. The difference between Gross National Income (GNI) per capita and HDI rank for a country highlights:
(A) Income alone is an insufficient measure of human well-being.
(B) An error in the calculation of GNI.
(C) The country's level of political freedom.
(D) The country's rate of inflation.

187. The Lewis model explain how:
(A) A stationary state is reached due to diminishing returns.
(B) Entrepreneurs drive growth through innovation.
(C) All sectors must grow simultaneously.
(D) Industrial growth occurs by drawing cheap labor from agriculture.

188. Which of the following best captures the essence of social sector development?
(A) Maximizing the rate of capital accumulation.
(B) Enhancing the capabilities and well-being of the population.
(C) Achieving a balanced government budget.
(D) Increasing the volume of international trade.

189. Based on the statements provided, select the most appropriate option:
Statement I : 'Absolute poverty' refers to a fixed real standard minimum level.
Statement II : 'Relative poverty' is defined in relation to average living standards.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

190. According to the Big Push theory, coordinated investment helps overcome:
(A) Diminishing returns in agriculture.
(B) A lack of entrepreneurial spirit.
(C) The instability of the knife-edge equilibrium.
(D) Indivisibility of demand.

191. In the Solow growth model, technological progress is assumed to be:
(A) Exogenous
(B) Endogenous
(C) Embodied
(D) Capital-augmenting only

192. Which of the following is NOT a direct measure of poverty but is used to analyze it?
(A) Headcount Index
(B) Lorenz Curve
(C) Poverty Gap
(D) Squared Poverty Gap

193. Which economists are associated with Post-Keynesian models emphasizing income distribution?
(A) Harrod and Domar
(B) Kaldor and Robinson

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rates have the same income level.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

235. The 'demonstration effect' can negatively affect growth by:
(A) Increasing the domestic savings rate.
(B) Lowering the propensity to import.
(C) Promoting investment in capital goods.
(D) Raising consumption propensity and lowering savings.

236. The key insight of the Kaldor-Robinson models of growth is that:
(A) Technological progress is always exogenous.
(B) Income distribution is a crucial determinant of savings and investment.
(C) Economies automatically converge to the same steady-state.
(D) The economy is inherently stable.

237. Which of the following is NOT an indicator used in constructing the PQLI?
(A) Life expectancy at age one.
(B) Infant mortality rate.
(C) Per capita income.
(D) Basic literacy rate.

238. Consider the following features related to development theories:
(a) Focus on indivisibilities.
(b) Emphasis on linkages and disequilibrium.
(c) Five linear stages.
(d) Innovative entrepreneur.
(e) Surplus value and class conflict.
Which matches Big Push, Unbalanced Growth, and Rostow respectively?
(A) (a), (b), and (c)
(B) (b), (c), and (d)
(C) (c), (d), and (e)
(D) (a), (b), and (e)

239. The following question consists of two statements—Assertion (A) and Reason (R). Answer the question by selecting the correct option:
Assertion (A) : Educating women is a key strategy for development.
Reason (R) : It is correlated with lower fertility, infant mortality, and higher human capital.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

240. The 'convergence club' hypothesis suggests that:
(A) All countries are converging to the same high level of income.
(B) Countries with similar structural characteristics will converge.
(C) No convergence is happening anywhere in the world.
(D) Rich countries are getting richer and poor countries poorer.

241. The primary distinction between economic growth and economic development is that development includes:
(A) A focus on increasing exports.
(B) Structural and institutional changes for overall well-being.
(C) A higher rate of inflation.
(D) A decrease in the savings rate.

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242. In the Harrod-Domar model, if $Gw < Gn$, the economy will experience:
(A) Secular stagnation and rising unemployment.
(B) Secular inflation and labor shortages.
(C) A stable, full-employment equilibrium.
(D) A stationary state with zero growth.

243. In the AK model ($Y = AK$), the per capita output growth rate is determined by:
(A) The rate of technological progress, which is exogenous.
(B) The population growth rate only.
(C) The savings rate and the technology parameter 'A'.
(D) The law of diminishing returns.

244. A key message of Schumpeter's theory is that capitalism evolves through:
(A) A gradual and smooth process of accumulation.
(B) The guidance of a central planning authority.
(C) The eventual emergence of a stationary

(C) Produced only by the government.
(D) Subject to diminishing returns.

205. Match the items in List I (Indicator) with the corresponding items in List II (Name):
List I:
P. PQLI
Q. HDI
R. Big Push
S. Unbalanced Growth
List II:
1. Mahbub ul Haq / Amartya Sen
2. Albert O. Hirschman
3. Morris(d) Morris
4. Paul Rosenstein-Rodan
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

206. The primary argument against the balanced growth strategy is its:
(A) Neglect of international trade.
(B) Overemphasis on agriculture.
(C) Focus on creating disequilibrium.
(D) Impracticality due to massive resource requirements.

207. Which of the following is a key difference between the growth models of Kaldor and Robinson?
(A) Kaldor's model includes a technical progress function.
(B) Robinson's model considers income distribution.
(C) Kaldor's model is neoclassical.
(D) Robinson's model focuses on a stationary state.

208. A country's Gini coefficient for income is 0.65. This value indicates:
(A) A very high level of income equality.
(B) A very high level of income inequality.
(C) That 65% of population is below poverty line.
(D) That country is in take-off stage.

209. Based on the statements provided, select the most appropriate option:
Statement I : Embodied technical progress suggests productivity is linked to new investment.
Statement II : Disembodied technical progress suggests productivity gains can occur without investment.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

210. Which theory posits that development proceeds through a sequence of five stages?
(A) W.W. Rostow's stages of economic growth.
(B) Karl Marx's theory of historical materialism.
(C) Joseph Schumpeter's theory of creative destruction.
(D) The Harrod-Domar growth model.

211. In the Solow model, what is the effect of an increase in the rate of population growth (n)?
(A) It increases the steady-state level of capital per worker.
(B) It increases the long-run rate of technological progress.
(C) It decreases the steady-state level of capital per worker.
(D) It has no effect on the steady-state level of capital per worker.

212. Which of the following goals is NOT part of the Sustainable Development Goals (SDGs)?
(A) Affordable and Clean Energy (Goal 7)
(B) Reduced Inequalities (Goal 10)
(C) Life on Land (Goal 15)
(D) Establishing a Single Global Currency

213. The vicious circle of poverty on the demand side operates through:
(A) Low income → Low saving → Low investment.
(B) Low education → Low skills → Low productivity.
(C) Low income → Small market size → Low inducement to invest.
(D) High population growth → Low per capita income.

214. Which of the following is an example of an initiative aimed at social sector development?
(A) A reduction in import tariffs on luxury cars.
(B) The launch of a nationwide immunization campaign for children.

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P. Creative Destruction
Q. Knife-edge Equilibrium
R. Golden Age
S. Big Push

List II:

1. Harrod-Domar Model
2. Joan Robinson Model
3. Rosenstein-Rodan's Theory
4. Schumpeter's Theory of Development

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-3, S-4

154. The Solow model explains long-run growth in per capita income as being primarily a result of:
(A) Exogenous technological progress.
(B) A high savings rate.
(C) A low population growth rate.
(D) Government fiscal policy.

155. Consider the following statements about economic development:
(a) It is a normative concept.
(b) It involves structural changes in the economy.
(c) It can be perfectly measured by GDP growth rate.
(d) It is synonymous with economic growth.

Which of the above statement(s) is/are correct?
(A) (c) and (d)
(B) (a) and (b)
(C) (a), (b), and (d)
(D) (b) and (c)

156. The main argument of the unbalanced growth strategy is to maximize:
(A) Social cohesion and equity.
(B) Inducement to invest through linkage effects.
(C) The size of the market through coordinated investment.
(D) The rate of savings in the economy.

157. Based on the statements provided, select the most appropriate option:
Statement I : In Kaldor's model, the savings rate depends on the distribution of income.
Statement II : The model assumes propensity to save from profits equals propensity from wages.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

158. The Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions. These are:
(A) Poverty, Equality, and Sustainability.
(B) Life Expectancy, Literacy, and Employment.
(C) Health, Sanitation, and Political Freedom.
(D) Health, Education, and Income.

159. A situation where population growth is higher than income growth, leading to a fall in per capita income, is a:
(A) Malthusian trap.
(B) Golden Age.
(C) Take-off stage.
(D) Virtuous cycle.

160. Which of the following is NOT a central feature of the Harrod-Domar growth model?
(A) The key role of investment in creating capacity and income.
(B) The substitutability between capital and labor.
(C) The concept of a warranted rate of growth.
(D) The instability represented by the knife-edge problem.

161. A key contribution of endogenous growth theory is to:
(A) Emphasize the role of diminishing returns to capital.
(B) Provide a theoretical basis for how policy can affect long-run growth.
(C) Re-establish the importance of the stationary state.
(D) Prove that all economies will converge in income levels.

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162. Which of the following statements about Adam Smith's and David Ricardo's theories is incorrect?
(A) Both saw technological innovation as the central driving force of development.
(B) Both were classical economists who emphasized capital accumulation.
(C) Smith was optimistic about growth, while Ricardo foresaw a stationary state.

(B) (a), (b), and (c)
(C) (c) and (d)
(D) (a) and (d)

225. Capital deepening refers to:
(A) An increase in labor force with constant capital.
(B) An increase in the capital per worker ratio.
(C) The depreciation of existing capital stock.
(D) Investment keeping capital per worker ratio constant.

226. The message of the Harrod-Domar model for developing countries was that the key to growth is:
(A) Investment and a high savings rate.
(B) Population control.
(C) Free trade.
(D) Technological innovation.

227. In Karl Marx's analysis, the 'relations of production' refer to:
(A) The technology and machinery used in production.
(B) The international trade patterns between countries.
(C) Social structures, property rights, and class relationships.
(D) The ratio of capital to labor in an industry.

228. Arrange the following economists' contributions in chronological order:
1. Robert Solow's Neoclassical Growth Model
2. Adam Smith's The Wealth of Nations
3. Paul Romer's Endogenous Growth Theory
4. Roy Harrod's An Essay in Dynamic Theory
(A) 2, 1, 4, 3
(B) 1, 2, 4, 3
(C) 4, 2, 3, 1
(D) 2, 4, 1, 3

229. Which of the following is the most accurate description of endogenous growth?
(A) Growth determined by factors outside the economic system.
(B) Growth that is unstable and tends towards a knife-edge point.
(C) Growth generated within the system by human capital and innovation.
(D) Growth that leads to a stationary state with zero per capita increase.

230. The 'Big Push' and 'Balanced Growth' theories are similar in that they both:
(A) Advocate for concentrating investment in a single leading sector.
(B) Suggest the need for large-scale, coordinated investment.
(C) Emphasize the importance of linkages and disequilibria.
(D) Argue that development is an automatic process.

231. Match the items in List I (Concept) with the corresponding items in List II (Economist):
List I:
P. Stationary State
Q. Take-off
R. Creative Destruction
S. Knife-edge equilibrium
List II:
1. Joseph Schumpeter
2. Roy Harrod
3. David Ricardo
4. W.W. Rostow
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

232. A policy to provide free mid-day meals in schools is an intervention aimed at improving:
(A) Both education (attendance) and health (nutrition).
(B) The Gini coefficient and income inequality.
(C) The balance of payments.
(D) The physical capital stock of the country.

233. The 'Human Poverty Index' (HPI) was designed to measure:
(A) The inequality of income among the poor.
(B) The total number of poor people in a country.
(C) The same dimensions as the HDI but focused on deprivation.
(D) The fiscal cost of poverty alleviation programs.

234. Based on the statements provided, select the most appropriate option:
Statement I : In the steady state, investment covers depreciation and new workers.
Statement II : Countries with different savings

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173. The Lorenz curve for a country with perfect income equality would be:
(A) A curve bowed deeply towards the bottom right corner.
(B) A vertical line on the y-axis.
(C) A straight line at a 45-degree angle from the origin.
(D) A horizontal line on the x-axis.

174. Based on the statements provided, select the most appropriate option:
Statement I : The Human Development Index (HDI) is a broader measure than income.
Statement II : The HDI includes health and education indicators.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

175. Which one of the following is NOT a feature of the classical theory of economic development?
(A) The crucial role of government planning and intervention.
(B) Emphasis on capital accumulation.
(C) A belief in the efficacy of the market mechanism.
(D) Concern with distribution of income among factors.

176. The concept of a 'low-level equilibrium trap' is most associated with the work of:
(A) W.W. Rostow
(B) Richard Nelson and Harvey Leibenstein
(C) Joseph Schumpeter
(D) Nicholas Kaldor

177. Match the items in List I (Model) with the corresponding items in List II (Key Outcome):
List I:
P. Solow Model
Q. Endogenous Growth Theory
R. Ricardo's Theory
S. Schumpeter's Theory
List II:
1. Innovation breaking circular flow
2. Eventual stationary state
3. Long-run growth determined by exogenous factors
4. Sustained growth driven by human capital
(A) P-1, Q-2, R-4, S-3
(B) P-3, Q-4, R-2, S-1
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-3, R-1, S-2

178. The Sustainable Development Goals (SDGs) differ from the Millennium Development Goals (MDGs) in that they include goals related to:
(A) Inequality, climate change, and sustainable consumption.
(B) Poverty and hunger only.
(C) Education and health only.
(D) Developing countries only.

179. A government policy focused on building schools and training teachers would directly contribute to:
(A) Physical capital formation.
(B) Improving the Gini coefficient.
(C) Human capital formation.
(D) Increasing the warranted rate of growth.

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180. The primary focus of development economics as a distinct field is on the:
(A) Problems of business cycles in advanced economies.
(B) Management of international financial institutions.
(C) History of economic thought.
(D) Economies of low and middle-income countries.

181. Consider the following growth path characteristics:
(a) Warranted growth equals natural growth.
(b) Capital accumulation equals labor force growth.
(c) Investment decisions are validated.
(d) Dynamic equilibrium full employment.
Which combination describes a Golden Age?
(A) (a) and (b) only
(B) (c) and (d) only
(C) (a), (b), and (c) only
(D) All of (a), (b), (c), and (d)

182. A major critique of W.W. Rostow's stages of growth theory is that:
(A) It is too focused on the role of institutions.
(B) It is overly deterministic and assumes a single linear path.
(C) It completely ignores the role of investment.
(D) It places too much emphasis on balanced

state.
(D) A process of 'creative destruction' driven by innovation.

245. Which of the following is the best example of a policy targeting the 'social sector'?
(A) Devaluing the currency to boost exports.
(B) Lowering the corporate income tax rate.
(C) Increasing budget allocation for primary healthcare centers.
(D) Building a new international airport.

246. Based on the statements provided, select the most appropriate option:
Statement I : The Gini coefficient measures absolute poverty.
Statement II : The Lorenz curve depicts income inequality.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

247. The introduction of a new smartphone that replaces older models is:
(A) The circular flow
(B) The stationary state
(C) The reserve army of labor
(D) Creative destruction

248. The Golden Rule level of capital in the Solow model maximizes:
(A) Consumption per worker.
(B) Output per worker.
(C) The rate of growth.
(D) The rate of profit.

249. Which of the following best describes the core idea of balanced growth?
(A) The economy should maintain balance between exports and imports.
(B) The government budget should always be balanced.
(C) Simultaneous, coordinated investment across wide range of industries.
(D) Investment concentrated in few sectors to create deliberate imbalances.

250. Arrange the following schools of thought on economic growth in chronological order:
1. Neoclassical (Solow)
2. Classical (Smith, Ricardo)
3. Endogenous Growth (Romer)
4. Keynesian/Dynamic (Harrod-Domar)
(A) 2, 4, 1, 3
(B) 2, 1, 4, 3
(C) 4, 2, 1, 3
(D) 1, 2, 3, 4

Direction : Please read the following source carefully.

The classical theories of economic development, primarily articulated by Adam Smith and David Ricardo, laid the foundational principles for understanding the mechanics of economic growth. Smith, in his seminal work, emphasized that the engine of growth is capital accumulation, which is facilitated by the division of labour. This specialization increases productivity, expands the market, and creates surpluses that can be reinvested. The invisible hand of the market mechanism was seen as an efficient allocator of these resources, guiding self-interest towards societal prosperity. Ricardo, while agreeing on the importance of capital accumulation, introduced a more pessimistic outlook. He focused on the distribution of income among landlords, capitalists, and labourers. He argued that as population grows, the law of diminishing returns in agriculture would lead to rising food prices and rents, squeezing the profits of capitalists. Since capitalists were the primary source of savings and investment, this profit squeeze would eventually halt capital accumulation, leading the economy to a stationary state where further growth ceases. For Smith, the stationary state was a distant possibility, but for Ricardo, it was an imminent threat due to land scarcity and diminishing returns.

Based on the above source, attempt the following five questions.

251. According to the classical perspective described, what is the primary engine of economic growth?
(A) Government intervention and planning
(B) Capital accumulation fueled by savings
(C) International trade and foreign aid
(D) Population growth and labour supply

252. How did David Ricardo's view on long-term growth differ from Adam Smith's?
(A) Ricardo posited that diminishing returns

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(B) adapt to new technologies and perform higher-skilled tasks.
(C) migrate to other countries for better opportunities.
(D) increase the demand for primary goods.

300. Based on the source, which statement best summarizes the relationship between social sector development and economic growth?
(A) Social sector development and economic growth are mutually reinforcing.
(B) Social sector development is purely a consequence of economic growth.
(C) Economic growth is independent of social sector development.
(D) Social sector spending is a drain on resources that could be used for economic growth.

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internal contradictions, while Schumpeter saw it as being perpetually revitalized by innovation.

258. In Schumpeter's theory, the primary agent of economic change and development is the:
(A) innovating entrepreneur.
(B) government planner.
(C) capitalist investor.
(D) organized proletariat.

259. Marx's theory of historical materialism, as described in the passage, suggests that:
(A) ethical and moral ideas are the primary drivers of historical change.
(B) capitalism is the final and most stable stage of economic development.
(C) a society's economic base determines its social and political superstructure.
(D) class conflict is a minor issue that is resolved by market forces.

260. The process of creative destruction implies that economic development is:
(A) characterized by the continuous and disruptive replacement of old economic structures with new ones.
(B) a smooth, predictable, and linear process.
(C) primarily managed and directed by government policy.
(D) dependent on the equal distribution of wealth and income.

Direction : Please read the following source carefully.

The strategies for initiating economic development have been a subject of intense debate, notably between the proponents of balanced and unbalanced growth. The balanced growth theory, often associated with Ragnar Nurkse, argues that a major, simultaneous investment across a wide range of industries is necessary to overcome the problem of a limited market in underdeveloped economies. The logic is that workers in a new shoe factory cannot consume all the shoes they produce; however, if a large number of industries are established concurrently, workers from each industry will create demand for the products of others, thus creating a self-sustaining market. In contrast, the unbalanced growth strategy, championed by Albert O. Hirschman, posits that developing countries lack the resources and entrepreneurial capacity for a large-scale, coordinated investment. Instead, development should be spurred by strategically investing in a few key sectors, particularly those with strong forward and backward linkages. This deliberate unbalancing of the economy creates tensions and bottlenecks that, in turn, induce investment in other sectors to resolve them. Complementing these strategic debates is W.W. Rostow's model of the Stages of Economic Growth, which presents development as a linear progression through five stages: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption. The take-off is the most critical stage, representing a short period of intensive growth where investment rates rise, new industries expand, and the economy transitions to a path of self-sustained growth.

Based on the above source, attempt the following five questions.

261. What is the core argument of the balanced growth theory as described in the passage?
(A) Investment should be concentrated in the agricultural sector first.
(B) Development should proceed by creating deliberate shortages in key sectors.
(C) Countries must follow a predetermined sequence of five linear stages.
(D) A simultaneous and large-scale investment across many industries is needed to create mutual demand.

262. The unbalanced growth strategy proposed by Hirschman suggests that investment should be prioritized in sectors with:
(A) the lowest capital requirements.
(B) strong forward and backward linkages to induce further investment.
(C) the most immediate consumer demand.
(D) a history of stable and predictable returns.

263. According to Rostow's model, which stage is characterized by the decisive transition to self-sustained growth?
(A) The traditional society
(B) The preconditions for take-off
(C) The take-off
(D) The age of high mass-consumption

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capita income ceases. The Solow model thus makes a crucial conclusion: sustained long-run growth in per capita income can only be achieved through continuous technological progress, which is treated as an exogenous factor. It elegantly demonstrates that simply increasing the savings rate can raise the level of per capita income in the steady state, but it cannot generate perpetual growth in it. True, sustained improvement in living standards is dependent on advancements in technology.

Based on the above source, attempt the following five questions.

276. What is the primary feature of the Solow model that distinguishes it from the Harrod-Domar model?
(A) The assumption of variable factor proportions and substitutability between capital and labour
(B) The assumption of a fixed capital-output ratio
(C) The inclusion of a government sector
(D) The focus on the dual role of investment

277. According to the Solow model, what is the ultimate source of sustained long-run growth in per capita income?
(A) A high and increasing savings rate
(B) A constant rate of population growth
(C) A low rate of capital depreciation
(D) Exogenous technological progress

278. In the Solow model's steady state, what is the status of output per worker?
(A) It grows at the rate of population growth.
(B) It remains constant.
(C) It declines due to diminishing returns.
(D) It grows at a rate equal to the savings rate.

279. The Solow model's self-correcting mechanism, which avoids the knife-edge problem, is primarily due to:
(A) government intervention.
(B) a fixed rate of population growth.
(C) the assumption of diminishing returns to capital.
(D) the exogeneity of technological change.

280. Based on the Solow model, what is the effect of an increase in the savings rate?
(A) It causes an immediate and permanent increase in the growth rate of per capita income.
(B) It has no effect on either the level or growth rate of per capita income.
(C) It leads to a permanent decline in the level of per capita income due to over-investment.
(D) It leads to a higher level of steady-state per capita income, but does not affect the long-run growth rate.

Direction : Please read the following source carefully.

Beyond the neoclassical framework, post-Keynesian models of growth, such as those by Joan Robinson and Nicholas Kaldor, place a strong emphasis on the role of income distribution. Joan Robinson's model, for instance, explores the intricate link between capital accumulation, technical progress, and the distribution of income between wages and profits. A key element is the desired rate of accumulation by firms, which depends on the expected rate of profit. Nicholas Kaldor proposed a model based on a set of stylized facts of economic growth, such as a steady growth rate of output and a relatively constant capital-output ratio. A central feature of Kaldor's model is the differential saving propensity, assuming that the propensity to save out of profits is significantly higher than the propensity to save out of wages. This links the distribution of income directly to the aggregate saving rate and thus the rate of growth. Parallel to these distributional models, the analysis of technical progress evolved. A crucial distinction was made between disembodied technical progress, which is manna from heaven that improves the productivity of all existing capital stock, and embodied technical progress, which requires new investment in improved machines or equipment to be realized. More recent endogenous growth theories build on this by treating technological progress not as an external shock but as an internal outcome of economic activity, driven by factors like investment in human capital and R&D.

Based on the above source, attempt the following five questions.

281. A central assumption in Nicholas Kaldor's growth model is that:
(A) the propensity to save from profits is higher

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demand to be viable.

Direction : Please read the following source carefully.

The Harrod-Domar model of economic growth provides a simple yet powerful framework for understanding the requirements for steady growth in an economy. The model's central equation, g = s/v, establishes a direct relationship between the rate of economic growth (g), the national saving rate (s), and the capital-output ratio (v). A key premise of the model is that investment has a dual role: it generates income (the multiplier effect) and it increases the economy's productive capacity (the capacity effect). For steady growth to be maintained, aggregate demand must grow at the same rate as productive capacity. The model is known for its knife-edge problem, which highlights its inherent instability. It distinguishes between the actual growth rate (Ga), the warranted growth rate (Gw), which is the rate that keeps capitalists satisfied with their investment levels, and the natural growth rate (Gn), which is determined by the growth of the labour force and technological progress. The model assumes a fixed capital-output ratio and fixed factor proportions, meaning there is no substitutability between capital and labour. Consequently, any divergence between Ga, Gw, and Gn can lead to either accelerating unemployment or persistent inflation, with no automatic mechanism to restore equilibrium.

Based on the above source, attempt the following five questions.

271. According to the Harrod-Domar model (g = s/v), what would be the effect of an increase in the national saving rate (s), assuming the capital-output ratio (v) remains constant?
(A) A decrease in the rate of economic growth
(B) No change in the rate of economic growth
(C) An increase in the rate of economic growth
(D) A decrease in the capital-output ratio

272. The knife-edge problem in the Harrod-Domar model refers to the:
(A) difficulty of balancing the budget deficit.
(B) inherent instability of steady growth due to potential divergences between actual, warranted, and natural growth rates.
(C) trade-off between inflation and unemployment.
(D) conflict between agricultural and industrial sector growth.

273. A fundamental assumption of the Harrod-Domar model that contributes to its instability is:
(A) variable returns to scale.
(B) perfect substitutability between capital and labour.
(C) the diminishing marginal productivity of capital.
(D) a fixed capital-output ratio and fixed factor proportions.

274. In the context of the Harrod-Domar model, the dual role of investment signifies that it:
(A) generates income and increases productive capacity simultaneously.
(B) only increases aggregate demand.
(C) only increases productive capacity.
(D) creates both employment and inflation.

275. The natural rate of growth (Gn) in the Harrod-Domar framework is determined by:
(A) the national saving rate and the capital-output ratio.
(B) the expectations of entrepreneurs.
(C) the growth of the labour force and technological progress.
(D) the government's fiscal policy.

Direction : Please read the following source carefully.

The Solow neoclassical growth model was developed as a direct response to the instabilities inherent in the Harrod-Domar model. Unlike its predecessor, the Solow model's core innovation is the assumption of variable factor proportions, allowing for continuous substitution between capital and labour. This flexibility, combined with the assumption of diminishing returns to capital, creates a self-correcting mechanism that ensures the economy converges to a stable equilibrium, or steady state. In this steady state, the capital-labour ratio and output per worker are constant. While investment (driven by savings) increases the capital stock per worker (capital deepening), this effect is offset by capital depreciation and population growth (capital widening). Consequently, in the absence of technological progress, long-run growth in per

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264. A key difference between the balanced and unbalanced growth strategies lies in their assumptions about:
(A) the importance of international trade.
(B) the final stage of economic development being high mass-consumption.
(C) the role of diminishing returns in agriculture.
(D) the availability of resources and entrepreneurial ability in developing countries.

265. The rationale behind balanced growth is primarily to solve the problem of:
(A) a limited domestic market.
(B) a lack of natural resources.
(C) excessive government intervention.
(D) technological stagnation.

Direction : Please read the following source carefully.

The Big Push theory, formulated by Paul Rosenstein-Rodan, is a seminal contribution to development economics that advocates for a large, comprehensive investment program to jolt a country out of underdevelopment. This approach stands in direct opposition to gradualist, piecemeal strategies, arguing that a critical minimum effort is required to overcome the inertia of a stagnant economy. The theory is fundamentally based on the concept of indivisibilities and external economies. Rosenstein-Rodan identified three key indivisibilities. First is the indivisibility in the production function, particularly in social overhead capital (like power, transport, and communications), which requires a significant, lumpy investment and cannot be built in small increments. Second is the indivisibility of demand, which relates to the interdependence of investment decisions; a wide range of industries must be established simultaneously to create a sufficient market for each other's products. This is similar to the balanced growth doctrine. Third is the indivisibility in the supply of savings, suggesting that a high minimum level of investment is necessary to generate the income required to sustain a high savings rate. The core message is that a bit-by-bit investment approach will fail because isolated projects are unlikely to be profitable and will not generate the widespread momentum needed for sustained development.

Based on the above source, attempt the following five questions.

266. What is the central thesis of the Big Push theory?
(A) Development is best achieved through small, incremental investments in agriculture.
(B) A large-scale, coordinated investment program is necessary to overcome development barriers.
(C) Unbalancing the economy by focusing on a single sector is the most effective strategy.
(D) Economic growth is an automatic process that requires no government intervention.

267. According to Rosenstein-Rodan, indivisibility in the production function refers mainly to the nature of:
(A) consumer goods industries.
(B) social overhead capital.
(C) entrepreneurial talent.
(D) the supply of labour.

268. The concept of indivisibility of demand in the Big Push theory implies that:
(A) an isolated investment project may fail due to a lack of market for its output.
(B) individual consumer demand is fixed and cannot be changed.
(C) foreign demand is indivisible from domestic demand.
(D) industries must be established sequentially, not simultaneously.

269. The Big Push approach is most closely aligned with which of the following development strategies?
(A) Unbalanced growth
(B) The stages of growth model
(C) Balanced growth
(D) The neoclassical growth model

270. Why does the Big Push theory argue against a piecemeal investment approach?
(A) Because it leads to high inflation and macroeconomic instability.
(B) Because it is politically difficult to implement.
(C) Because it concentrates wealth in the hands of a few capitalists.
(D) Because isolated projects cannot generate sufficient external economies and market

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than the propensity to save from wages.
(B) the propensity to save is the same for all income groups.
(C) technological progress is always disembodied.
(D) the capital-output ratio is highly variable.

282. What is the key distinction between embodied and disembodied technical progress?
(A) Embodied progress affects labour productivity, while disembodied progress affects capital.
(B) Embodied progress requires new investment to be implemented, while disembodied progress improves the efficiency of all capital.
(C) Embodied progress is endogenous, while disembodied progress is exogenous.
(D) Embodied progress leads to a falling rate of profit, while disembodied progress does not.

283. The growth models of Joan Robinson and Nicholas Kaldor are distinct from the Solow model because they prominently feature:
(A) the assumption of perfect substitutability between capital and labour.
(B) the role of income distribution between wages and profits as a determinant of growth.
(C) a stable convergence to a steady state regardless of initial conditions.
(D) the idea that technological progress is the only source of long-run growth.

284. Endogenous growth theory differs from the Solow model by treating technological progress as:
(A) an outcome of factors within the economic system, such as R&D.
(B) an external and unpredictable shock.
(C) a constant and unchanging parameter.
(D) a factor that only affects labour productivity.

285. According to the passage, Kaldor's model attempts to explain a set of stylized facts of economic growth. One such fact mentioned is:
(A) a falling rate of profit over time.
(B) a consistently rising capital-output ratio.
(C) a relatively constant capital-output ratio over the long run.
(D) cyclical fluctuations in the unemployment rate.

Direction : Please read the following source carefully.

While economic growth, measured by the increase in Gross National Income (GNI), is a crucial aspect of a country's progress, it does not capture the full picture of human well-being. This realization led to the development of broader indicators of economic development. The Physical Quality of Life Index (PQLI), pioneered by Morris D. Morris, was an early attempt to create a composite index focusing on social outcomes. It averages three indicators on a scale of 0 to 100: life expectancy at age one, infant mortality rate, and adult literacy rate. The PQLI deliberately excludes income to provide a non-income-based measure of well-being. A more comprehensive and widely adopted measure is the Human Development Index (HDI), developed by the United Nations Development Programme (UNDP). The HDI combines three key dimensions of human development: a long and healthy life (measured by life expectancy at birth), knowledge (measured by mean years of schooling and expected years of schooling), and a decent standard of living (measured by GNI per capita, adjusted for purchasing power parity). More recently, the global development agenda has been shaped by the Sustainable Development Goals (SDGs), a set of 17 interconnected goals adopted by all UN Member States, which provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. The SDGs encompass a vast range of social, economic, and environmental objectives, moving far beyond simple income or social indicators.

Based on the above source, attempt the following five questions.

286. Which of the following components is included in the Physical Quality of Life Index (PQLI) but not explicitly in the Human Development Index (HDI)?
(A) Life expectancy
(B) Gross National Income per capita
(C) Education levels
(D) Infant mortality rate

287. A primary conceptual difference between the PQLI and the HDI is that:
(A) the PQLI includes an environmental

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in agriculture would inevitably lead to a stationary state, a more imminent concern than for Smith.
(B) Ricardo believed that technological progress could infinitely postpone the stationary state, whereas Smith did not.
(C) Ricardo was more optimistic about the role of the invisible hand in ensuring sustained growth.
(D) Ricardo emphasized the division of labour as the sole driver of growth, while Smith focused on income distribution.

253. The concept of the stationary state in Ricardian theory is characterized by:
(A) rapid technological innovation and rising profits.
(B) an expanding market and increasing division of labour.
(C) zero growth in capital stock and population.
(D) a continuous increase in the wages of labourers.

254. Which of the following best describes the role of the division of labour in Adam Smith's theory?
(A) It primarily serves to equalize the distribution of income.
(B) It is a consequence of capital accumulation, not a cause.
(C) It is the main factor leading to the law of diminishing returns.
(D) It increases worker productivity, thereby enabling the surplus required for investment.

255. Based on the passage, Ricardo's analysis suggests that the profits of capitalists are squeezed in the long run primarily due to:
(A) excessive taxation by the state.
(B) a decline in the overall division of labour.
(C) rising wages and increasing rents driven by diminishing agricultural returns.
(D) competition from foreign producers.

Direction : Please read the following source carefully.

The discourse on economic development was significantly shaped by the contrasting perspectives of Karl Marx and Joseph Schumpeter. Marx's theory is rooted in historical materialism, which posits that the mode of production determines the social, political, and intellectual structure of society. He viewed capitalism as a system rife with internal contradictions, primarily the conflict between the bourgeoisie (capital owners) and the proletariat (working class). For Marx, capital accumulation is driven by the exploitation of labour, but this very process creates the conditions for its own collapse. He argued that inherent tendencies like the falling rate of profit and recurrent economic crises would intensify class conflict, ultimately leading to a revolutionary overthrow of the capitalist system. In stark contrast, Schumpeter presented a dynamic vision of capitalism, not as a system doomed to collapse, but one constantly revolutionized from within by a process he termed creative destruction. The central figure in Schumpeter's theory is the entrepreneur, who drives economic development by introducing new innovations—new products, new methods of production, or new markets. These innovations disrupt existing economic structures, destroying old industries and creating new ones. For Schumpeter, development is a discontinuous, cyclical process propelled by entrepreneurial activity, not a smooth, incremental progression.

Based on the above source, attempt the following five questions.

256. Which concept is central to Joseph Schumpeter's theory of economic development?
(A) The stationary state resulting from diminishing returns
(B) The process of creative destruction driven by innovation
(C) The exploitation of labour leading to class conflict
(D) The balanced growth of all economic sectors simultaneously

257. According to the passage, how does Marx's view of the capitalist system's future differ from Schumpeter's?
(A) Marx believed capitalism would stabilize, while Schumpeter saw it as inherently unstable.
(B) Marx emphasized the role of the state in sustaining capitalism, whereas Schumpeter focused on the market.
(C) Marx saw innovation as the key to saving capitalism, while Schumpeter viewed it as a destabilizing force.
(D) Marx predicted capitalism's collapse due to

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uses the Lorenz curve.

293. On a Lorenz curve diagram, what does the straight diagonal line represent?
(A) A state of perfect inequality
(B) The poverty line
(C) The distribution of wealth in a typical developing country
(D) A state of perfect equality

294. A person is considered to be in relative poverty if:
(A) they lack the basic necessities for survival.
(B) their income is significantly lower than the median income of their society.
(C) they live on less than $1.90 a day.
(D) their income falls just above the absolute poverty line.

295. The Lorenz curve provides a graphical representation of the relationship between the:
(A) Gini coefficient and the rate of economic growth.
(B) poverty line and the Headcount Ratio.
(C) cumulative percentage of the population and the cumulative percentage of income.
(D) income per capita and the Human Development Index.

Direction : Please read the following source carefully.

The development of the social sector, particularly in the realms of health and education, is increasingly recognized as a fundamental driver of sustainable economic development. These sectors are not merely outcomes of growth but are critical inputs for it. Investments in health and education are understood as investments in human capital—the stock of knowledge, skills, and health that individuals accumulate. A healthier population is more productive, has lower rates of absenteeism, and can engage more effectively in the workforce over a longer period. Similarly, an educated populace is better equipped to adapt to new technologies, innovate, and perform higher-skilled tasks, which are essential for moving an economy up the value chain. Consequently, public and private spending on health and education systems can generate substantial long-term economic returns. Furthermore, the issue of gender is a crucial dimension of social sector development. Gender inequality, manifested in disparities in access to education, healthcare, economic opportunities, and political participation, acts as a significant barrier to development. Empowering women and ensuring gender equality not only is a goal in itself but also has a multiplier effect on the entire economy, leading to better development outcomes in health, education for children, and overall economic growth.

Based on the above source, attempt the following five questions.

296. According to the passage, why are investments in health and education considered critical inputs for economic development?
(A) Because they directly increase a country's foreign exchange reserves.
(B) Because they are the only factors measured by the Human Development Index.
(C) Because they guarantee an equal distribution of income in the long run.
(D) Because they constitute investments in human capital, which enhances productivity and innovation.

297. The term human capital as used in the source refers to the:
(A) stock of knowledge, skills, and health embodied in the population.
(B) total population size of a country.
(C) amount of financial capital invested by individuals.
(D) physical infrastructure like roads and ports.

298. How does gender inequality act as a barrier to development, according to the passage?
(A) By increasing the rate of population growth beyond sustainable levels.
(B) By limiting the potential contribution of a significant portion of the population to the economy.
(C) By causing a decline in the national savings rate.
(D) By exclusively benefiting the industrial sector at the expense of agriculture.

299. The passage suggests that a key economic benefit of an educated populace is its ability to:
(A) demand higher wages, thus stimulating consumption.

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sustainability component, while the HDI does not.
(B) the PQLI is used by the World Bank, while the HDI is used by the IMF.
(C) the HDI includes an income component (GNI per capita), whereas the PQLI deliberately excludes it.
(D) the HDI focuses only on health, while the PQLI focuses on education.

288. The Human Development Index (HDI) measures the knowledge dimension using which of the following combination of indicators?
(A) Adult literacy rate and school enrollment ratio
(B) Mean years of schooling and expected years of schooling
(C) Pupil-teacher ratio and government expenditure on education
(D) Number of universities and R&D spending

289. The Sustainable Development Goals (SDGs) represent a development framework that is:
(A) narrower in scope than the HDI, focusing only on poverty.
(B) primarily concerned with economic growth maximization.
(C) a replacement for GNI per capita as a single measure of development.
(D) a comprehensive and multidimensional agenda covering social, economic, and environmental targets.

290. What is the fundamental purpose of developing indicators like PQLI and HDI?
(A) To provide a broader, more holistic measure of human well-being beyond just income.
(B) To replace economic growth as the sole objective of national policy.
(C) To rank countries purely on their economic performance.
(D) To measure the effectiveness of a country's military and political power.

Direction : Please read the following source carefully.

The study of poverty and inequality is central to development economics, as high growth rates do not automatically translate into improved well-being for all segments of the population. Poverty is broadly categorized into absolute and relative poverty. Absolute poverty refers to a condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing), often defined by a poverty line. Relative poverty, on the other hand, defines poverty in relation to the economic standards of the society in which a person lives. Measurement of poverty often involves the Headcount Ratio, which is the proportion of the population living below the poverty line, and the Poverty Gap Index, which measures the extent to which individuals fall below the poverty line (the poverty gap) as a proportion of the poverty line. Inequality, which refers to the unequal distribution of income or consumption, is commonly measured using the Lorenz Curve and the Gini coefficient. The Lorenz Curve is a graphical representation of the distribution of income, plotting the cumulative percentage of total income received against the cumulative percentage of the population. A perfectly straight diagonal line represents perfect equality. The Gini coefficient is a numerical measure derived from the Lorenz curve, representing the area between the line of perfect equality and the observed Lorenz curve. It ranges from 0 (perfect equality) to 1 (perfect inequality).

Based on the above source, attempt the following five questions.

291. A country with a Gini coefficient of 0.65 would be considered to have:
(A) a very high level of income equality.
(B) a perfectly equal distribution of income.
(C) a very high level of income inequality.
(D) a level of poverty below the international poverty line.

292. What is the primary difference between the Headcount Ratio and the Poverty Gap Index?
(A) The Headcount Ratio simply counts the number of poor, while the Poverty Gap Index measures the depth or intensity of poverty.
(B) The Headcount Ratio measures relative poverty, while the Poverty Gap Index measures absolute poverty.
(C) The Headcount Ratio is based on income, while the Poverty Gap Index is based on consumption.
(D) The Headcount Ratio uses the Gini coefficient, while the Poverty Gap Index

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ANSWERS

1. (B) A long-term increase in a country's real national income or per capita income.
   Economic growth is fundamentally defined as a steady increase in the productive capacity of an economy over time. This process is typically measured by the growth rate of real gross domestic product or real national income. It specifically focuses on the quantitative expansion of goods and services produced within a nation. Sustained increases in per capita income also indicate that the economy is expanding faster than its population.

2. (A) Both Statement I and Statement II are true.
   Economic growth represents a quantitative increase in national income, whereas development is a broader qualitative concept. Growth provides the necessary resources for improving living standards, yet it does not guarantee equitable distribution or structural improvements. Development encompasses changes in the socio-economic structure, institutional reforms, and overall well-being. Therefore, growth is a prerequisite for development, but development requires additional progressive changes beyond mere income expansion.

3. (C) It involves growth accompanied by progressive changes in the socio-economic structure.
   Economic development is distinguished from simple growth by its emphasis on qualitative improvements within a society. While growth tracks the increase in output, development focuses on structural shifts such as industrialization and urbanization. It also involves institutional changes that enhance the quality of life for the general population. This multi-dimensional process ensures that the benefits of rising national income lead to better health, education, and social welfare.

4. (D) Division of labour and capital accumulation.
   Adam Smith identified the division of labour as the primary driver of productivity and economic expansion. By breaking down tasks, workers become more specialized and efficient, leading to a greater output. This process is facilitated by capital accumulation, which provides the necessary machinery and tools for production. These two elements work together to create a virtuous cycle of increasing returns and sustained national wealth.

5. (C) The process of 'creative destruction' by entrepreneurs.
   David Ricardo's classical theory focuses on the constraints of land and the role of diminishing returns in agriculture. He emphasized how rising rents and subsistence wages would eventually squeeze profits, leading to a stationary state. In contrast, the concept of creative destruction is a hallmark of Joseph Schumpeter's theory. Schumpeter argued that innovation and entrepreneurial activity drive economic development by constantly replacing old structures with new ones.

6. (B) Karl Marx.
   Karl Marx introduced the concept of the industrial reserve army to describe the unemployed and underemployed population in a capitalist system. This pool of surplus labour serves the interests of capitalists by keeping wages low due to high competition for jobs. According to Marxian theory, this dynamic is essential for maintaining the rate of surplus value and capital accumulation, eventually leading to systemic contradictions.

7. (A) P-3, Q-4, R-1, S-2
   Schumpeter's theory centers on innovation as the catalyst for economic change. David Ricardo is famously associated with the concept of the stationary state, where growth eventually ceases due to diminishing returns. W.W. Rostow developed a linear model consisting of five specific stages of economic growth. Finally, Rosenstein-Rodan proposed the Big Push theory, which advocates for large-scale, coordinated investment to overcome development obstacles in emerging economies.

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that the theory aims to overcome often prevent it from being a viable development strategy.

53. (C) A positive relationship between profit share in national income and investment rate.

In Nicholas Kaldor's growth model, the propensity to save is assumed to be higher for those who earn profits than for those who earn wages. This assumption creates a direct link between the distribution of income and the rate of capital accumulation. If the investment rate increases, the share of profits in the national income must also rise to generate the necessary savings for equilibrium. This relationship highlights how income distribution adjusts to ensure dynamic stability in the economy.

54. (B) The rate of profit depends only on the propensity to save of the capitalists.

The Pasinetti Paradox is a significant finding within the Cambridge growth models regarding the long-run distribution of income. Luigi Pasinetti demonstrated that in a growing economy, the equilibrium rate of profit is determined solely by the growth rate of the economy and the propensity to save of the capitalist class. Interestingly, the savings behavior of the working class has no influence on the rate of profit, provided that capitalists continue to save and invest in the economy.

55. (A) (a), (b), and (c) only

Joan Robinson's model is a prominent post-Keynesian framework that emphasizes the role of investment and capital accumulation in economic growth. She introduced the concept of animal spirits to describe the psychological factors that drive entrepreneurs to invest despite uncertainty. The model also identifies the Golden Age as a state of smooth growth where capital accumulation matches the expansion of the labour force. Unlike neoclassical models, it does not assume perfect competition or easy substitutability between factors of production.

56. (A) Universal Internet Access

The Sustainable Development Goals consist of seventeen global objectives adopted by the United Nations to address a wide range of social, economic, and environmental issues. Specific goals include ending poverty, achieving zero hunger, and taking urgent action against climate change. While improving digital connectivity is mentioned under goals related to industry and infrastructure, universal internet access is not listed as a standalone goal. The SDGs prioritize fundamental issues like health, education, inequality, and environmental protection for all nations.

57. (C) 1, 3, 2, 4

Adam Smith's seminal work on wealth was published in seventeen seventy-six, marking the start of classical economics. The Harrod-Domar growth model was formulated in the late nineteen-thirties and early nineteen-forties. The Human Development Index was introduced by the United Nations Development Programme in nineteen ninety to provide a broader measure of well-being. Finally, the Sustainable Development Goals were officially adopted by the international community in twenty-fifteen as a global blueprint for a better and more sustainable future.

58. (A) The proportion of the population that lives below the poverty line.

The headcount ratio is the most common and straightforward measure used to determine the incidence of poverty within a country. It is calculated by dividing the total number of people whose income or consumption falls below the official poverty line by the total population. While this ratio identifies how many people are poor, it does not provide information about the depth or intensity of their poverty or how far they are below the threshold.

59. (D) An increase in the female literacy rate.

Social sector development focuses on improving the quality of human life through investments in areas such as health, education, and social welfare. An increase in the female literacy rate is a prime example of such progress, as it reflects improved access to education and empowers women. This development typically leads to positive externalities, including lower infant mortality and improved family health. In contrast, indicators like stock market performance or fiscal deficits are primarily concerned with the financial and macroeconomic sectors.

60. (A) P-3, Q-4, R-2, S-1

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reaches the age of high mass-consumption, characterized by high consumer durables.

16. (B) Substitution between capital and labour.
A fundamental difference between the Harrod-Domar and Solow growth models lies in their assumptions about the production function. The Harrod-Domar model utilizes a fixed-proportions production function, meaning capital and labor must be used in rigid ratios. The Solow model, however, introduces a neoclassical production function that allows for continuous substitution between capital and labor. This flexibility ensures that the economy can naturally adjust factor intensities to maintain a stable and balanced growth path.

17. (B) Steady state with zero per capita growth.
In the neoclassical Solow growth model, the economy eventually reaches a long-run equilibrium called the steady state. In this condition, the amount of investment is exactly sufficient to replace depreciated capital and provide for new workers. Without the influence of exogenous technological progress, the growth rate of output per worker and capital per worker becomes zero. Consequently, long-term increases in living standards are entirely dependent on continuous technological advancement.

18. (A) Both Statement I and Statement II are true.
Joan Robinson's growth model places significant importance on the psychological motivations of entrepreneurs, often referred to as animal spirits, which drive capital accumulation. Simultaneously, Nicholas Kaldor's model focuses on how the distribution of income between wages and profits determines the overall savings and growth rate of an economy. Both theories are categorized as post-Keynesian and emphasize that the rate of investment is a central force in determining economic outcomes.

19. (C) It assumes a fixed capital-labour ratio.
Nicholas Kaldor's growth model is distinct because it incorporates a technical progress function rather than a traditional production function. This approach implies that capital and labour can be substituted and that the capital-labour ratio is variable over time. The model assumes that the propensity to save is higher for profit-earners than for wage-earners. By linking income distribution to growth, Kaldor explains how the economy achieves equilibrium through shifts in the shares of wages and profits.

20. (D) The growth rate of capital equals the growth rate of the labour force.
In Joan Robinson's model, the Golden Age represents a state of smooth, steady-state growth where full employment is maintained over time. This ideal equilibrium occurs when the rate of capital accumulation perfectly matches the growth rate of the labour force, adjusted for technological progress. Under these conditions, the capital-labour ratio remains constant, and expectations are consistently met. This concept serves as a benchmark for analyzing the potential stability and sustainability of an economy.

21. (B) (b), (c) and (d) only
Endogenous growth theory is characterized by its focus on internal factors such as human capital and research and development. Unlike neoclassical models, it posits that knowledge and innovation exhibit increasing returns, which allows for sustained long-run growth. It also suggests that government policies, specifically those encouraging education and technological investment, can permanently influence a nation's growth rate. Furthermore, these models explain why per capita incomes do not necessarily converge across different countries.

22. (B) An organizational or general improvement in knowledge that enhances productivity.
Disembodied technical progress refers to improvements in productivity that are not tied to any specific new piece of capital equipment. It represents a general shift in the production function, allowing for more output to be produced with the same amount of inputs. This type of progress often results from better organizational methods, enhanced managerial techniques, or the diffusion of new knowledge throughout the economy. It benefits all existing capital and labour regardless of their age.

23. (D) The introduction of a more efficient computer system to replace an older one.
Embodied technical progress occurs when new technology is physically incorporated into new

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8. (A) Both A and R are true and R is the correct explanation of A.
Joseph Schumpeter viewed the entrepreneur as the central figure in economic development, distinguishing them from ordinary managers. The primary role of the entrepreneur is to introduce new combinations of resources, products, or processes into the economy. These innovations disrupt the existing circular flow of economic life, leading to structural shifts. This dynamic process, driven by entrepreneurial initiative, is what Schumpeter identified as the fundamental engine of growth.

9. (C) The development of a manufacturing sector and rising productive investment.
The take-off stage is a decisive period in a nation's history where the barriers to steady growth are finally overcome. During this stage, the rate of effective investment and savings rises significantly, typically exceeding ten percent of the national income. One or more substantial manufacturing sectors develop, and the institutional framework of the society is transformed to support the expansion of the modern sector, ensuring sustained progress.

10. (A) Investment should be concentrated in strategically chosen sectors to create linkages.
The strategy of unbalanced growth posits that developing countries lack the resources for simultaneous investment across all sectors. Instead, investment should be focused on specific industries that possess strong backward and forward linkages. This creates a chain of disequilibria that motivates and pressures other sectors to expand. By strategically choosing leading industries, an economy can effectively induce further investment and overcome the limitations of scarce capital and management.

11. (A) (a) and (c) only
The Big Push theory, proposed by Paul Rosenstein-Rodan, emphasizes the necessity of a high minimum amount of investment to initiate development. It argues that small, isolated investments are insufficient to overcome the inertia of stagnant economies. Instead, a large-scale, coordinated effort is required to exploit indivisibilities in production and take advantage of external economies. This theory differs significantly from strategies that suggest focusing on only a few sectors.

12. (B) Growth and investment.
The Harrod-Domar growth model focuses on the dual role of investment in an economy. Investment not only generates income through the multiplier effect but also increases the productive capacity of the economy by expanding the capital stock. The model suggests that the rate of economic growth is directly proportional to the savings rate and inversely proportional to the capital-output ratio. Therefore, sustained growth requires a consistent and sufficient level of investment.

13. (C) The rate of growth at which firms feel their investment decisions were correct.
In the Harrod-Domar model, the warranted rate of growth is the rate that leaves entrepreneurs satisfied with their past investment decisions. If the economy grows at this specific rate, firms find that they have neither too much nor too little capital for the level of demand they face. Consequently, they are motivated to continue investing at the same rate, maintaining a dynamic equilibrium between the supply of capital and aggregate demand.

14. (D) Harrod-Domar Model.
The Harrod-Domar model highlights an inherent instability in economic growth known as the knife-edge equilibrium. This problem occurs because the warranted rate of growth, the actual rate of growth, and the natural rate of growth are unlikely to coincide in a capitalist economy. Any slight deviation from the equilibrium path leads to either cumulative inflation or secular stagnation. The model's rigid assumptions regarding capital-output ratios contribute to this instability.

15. (A) 1, 5, 4, 2, 3
W.W. Rostow's stages of growth model provides a historical interpretation of the economic development process. It begins with the traditional society and moves to the preconditions for take-off, where science and infrastructure emerge. This is followed by the take-off stage, a brief period of rapid industrialization. Next is the drive to maturity, where technology spreads across the economy. Finally, the economy

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gap index are specific measures used to identify and quantify the extent and depth of poverty.

31. (A) These expenditures are expected to enhance human capital and future productivity.
Viewing spending on health and education as an investment reflects the belief that these services improve the quality and efficiency of the labour force. Educated and healthy individuals are generally more productive, innovative, and capable of adapting to new technologies. By enhancing human capital, such expenditures contribute to long-term economic growth and development. This perspective justifies public and private spending in the social sector as a means of generating future economic returns for society.

32. (B) Reproductive health, empowerment, and economic status.
The Gender Inequality Index is a composite measure that captures the loss of potential human development due to disparities between women and men. It focuses on three critical areas: reproductive health, measured by maternal mortality and adolescent birth rates; empowerment, measured by parliamentary seats and secondary education; and economic status, measured by labour market participation. This index highlights where gender gaps are most significant, providing a basis for policy interventions to promote equality.

33. (B) Big Push Theory – Paul Rosenstein-Rodan.
The Big Push theory, developed by Paul Rosenstein-Rodan, argues that a massive, coordinated investment program is necessary to lift a developing country out of poverty. This strategy focuses on exploiting the interconnectedness of various industries and the benefits of external economies. Other options provided in the question incorrectly attribute theories like the strategy of unbalanced growth to Ragnar Nurkse or the theory of unlimited labor supplies to W.W. Rostow, which are inaccurate.

34. (A) Both A and R are true and R is the correct explanation of A.
David Ricardo was a classical economist who predicted that economic growth would eventually end in a stationary state. He argued that as population grows, less fertile land must be brought under cultivation, leading to diminishing returns in agriculture. This process increases the cost of food, which in turn raises subsistence wages and reduces industrial profits. As profits are the source of investment, their decline eventually brings capital accumulation and economic expansion to a complete halt.

35. (C) Implies more output and changes in technical and institutional arrangements.
Economic growth is primarily concerned with a quantitative increase in the total output of goods and services within an economy. Economic development, however, is a much broader and more complex process. It includes not only growth but also qualitative improvements such as structural changes, institutional reforms, and technological advancements. Development ensures that the benefits of increased production lead to overall improvements in the standard of living and the well-being of the population.

36. (D) 2, 1, 4, 3
Adam Smith pioneered modern economic thought in the late eighteenth century with his focus on specialization and markets. Karl Marx followed in the mid-nineteenth century, offering a critique of capitalism centered on class struggle and accumulation. Joseph Schumpeter made his major contributions in the early twentieth century, highlighting the role of the innovative entrepreneur. Finally, W.W. Rostow developed his stages of growth theory in the mid-twentieth century, providing a historical framework for modern development.

37. (D) (a), (b), (c), and (d)
The Solow growth model is a neoclassical framework built on several key assumptions. It incorporates a production function with diminishing returns to capital, meaning that additional investment eventually yields smaller increases in output. The model also predicts conditional convergence, where similar economies reach comparable income levels. While the savings rate influences the steady-state level of output, sustained per capita growth is solely driven by exogenous technological progress, which enhances the productivity of all factors.

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capital goods. In this scenario, productivity gains can only be realized by investing in and utilizing the latest equipment. A classic example is the replacement of an obsolete computer system with a modern one that possesses superior processing power. This concept implies that the age of the capital stock is a crucial determinant of an economy's overall efficiency and growth potential.

24. (A) Both A and R are true and R is the correct explanation of A.

Neoclassical growth models predict that poor countries will eventually catch up to rich ones due to diminishing returns to capital. However, endogenous growth models challenge this idea by highlighting the role of human capital and knowledge spillovers. These factors can create increasing returns, allowing advanced economies to maintain high growth rates. Because rich countries have a better capacity to innovate and educate their workforce, they may continue to grow faster, preventing global income convergence.

25. (C) Life expectancy, infant mortality, and adult literacy rate.

The Physical Quality of Life Index was developed to measure the well-being of a population without relying solely on income data. It uses three key indicators: life expectancy at age one, the infant mortality rate, and the adult literacy rate. Each indicator is scaled from zero to one hundred, and the simple average of these scores provides the final index. This approach highlights the social outcomes of development and is often used for international comparisons.

26. (A) A measure of income inequality.

The Human Development Index is a composite measure used to rank countries based on three essential dimensions of human life. These dimensions include a long and healthy life, access to knowledge through education, and a decent standard of living measured by national income. While the HDI provides a comprehensive view of average achievements, it does not account for how income is distributed within a country. Therefore, it is not a direct measure of income inequality.

27. (B) P-3, Q-4, R-2, S-1

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Absolute poverty is defined as the inability to afford the basic resources required for physical survival. The Human Development Index is a widely recognized measure of well-year being published annually by the United Nations Development Programme. Ragnar Nurkse was a prominent advocate of the balanced growth theory, which suggests simultaneous investment across many sectors. Conversely, Albert O. Hirschman proposed the strategy of unbalanced growth, emphasizing the role of strategic sector linkages and deliberate disequilibria.

28. (B) They exclusively focus on environmental protection, excluding social issues.

The Sustainable Development Goals represent a comprehensive and universal framework designed to address various global challenges. While environmental sustainability is a critical component, the goals also encompass social and economic dimensions, such as poverty eradication, quality education, and gender equality. Adopted by all United Nations Member States in 2015, they provide a shared blueprint for peace and prosperity. The target for achieving these integrated and indivisible goals is the year 2030.

29. (C) A situation where individuals lack minimum resources for basic physical well-being.

Absolute poverty refers to a condition where individuals or households cannot afford a minimum level of subsistence, including essential food, clothing, and shelter. This measure is usually based on a fixed income threshold or a poverty line that remains constant in real terms across different periods. Unlike relative poverty, which compares an individual's income to the rest of society, absolute poverty focuses on the fundamental requirements for maintaining basic physical health.

30. (B) (a) and (b) only

The Lorenz curve and the Gini coefficient are primary tools used by economists to analyze the distribution of income or wealth within a population. The Lorenz curve provides a visual representation of the cumulative share of income, while the Gini coefficient offers a single numerical value to summarize this distribution. In contrast, the headcount ratio and the poverty

rate of expansion that an economy can achieve. This rate is fundamentally determined by two external factors: the growth rate of the labour force and the rate of technological progress. It reflects the economy's potential capacity to grow given its resources. Achieving a stable equilibrium requires this natural rate to coincide with the actual and warranted rates of growth in the economy.

46. (A) (a), (c), and (d)
The Human Development Index is a composite measure used to rank countries based on three key dimensions of human well-being. These dimensions include a long and healthy life, which is measured by life expectancy at birth. Access to knowledge is evaluated using mean years of schooling and expected years of schooling. Finally, a decent standard of living is assessed using gross national income per capita adjusted for purchasing power parity in international dollars.

47. (A) The Big Push approach
The Big Push approach is based on the idea that developing countries need a large, coordinated investment effort to become productive. A central justification for this theory is the existence of pecuniary external economies, where an investment in one sector creates increased demand and profitability for another. By coordinating these investments, the government can ensure that industries support each other, overcoming the market failures and indivisibilities that often trap low-income economies in a cycle of stagnation.

48. (B) A high degree of income inequality.
The Lorenz curve is a graphical tool used to represent the distribution of income within a population. The closer the curve is to the forty-five-degree line of perfect equality, the more equal the income distribution. Conversely, a Lorenz curve that bows significantly away from this line indicates that a large share of the total income is concentrated among a small percentage of the population. Therefore, a greater distance signifies a higher level of income inequality.

49. (C) Statement I is true, but Statement II is false.
Technical progress can be classified into two types based on how it enters the production process. Embodied technical progress refers to innovations that are physically incorporated into new capital goods, meaning productivity increases only with new investment. Disembodied technical progress, on the other hand, represents general improvements in knowledge or organization that enhance the efficiency of all existing factors of production. It is not limited to the labour force but affects the entire production function of the economy.

50. (A) The stock of knowledge, skills, and health embodied in the labour force.
Human capital represents the productive capacity of individuals, which is enhanced through education, vocational training, and healthcare. Like physical capital, human capital is a produced factor of production that contributes to economic growth by increasing the efficiency and innovative potential of the workforce. Investments in human capital are essential for economic development because they enable people to utilize modern technology more effectively and participate more fully in the overall growth of the national economy.

51. (C) Physical Quality of Life Index (PQLI)
The Physical Quality of Life Index was developed by Morris D. Morris in the late nineteen-seventies as an alternative to using gross national product as a measure of development. This index focuses on three non-income indicators: infant mortality, life expectancy at age one, and basic literacy. By concentrating on these social outcomes, the PQLI provides a clearer picture of how well a country is meeting the basic human needs of its entire population.

52. (A) Both A and R are true and R is the correct explanation of A.
Critics of the balanced growth strategy argue that it is often impractical for developing countries due to its immense resource requirements. The theory assumes that a nation has the capital and administrative capacity to launch and coordinate investments across a wide range of industries simultaneously. In reality, most developing economies face severe shortages of capital and skilled personnel. Therefore, the very obstacles

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38. (B) The vicious circle of poverty.
The vicious circle of poverty describes a situation where low income leads to low savings, which in turn results in low investment and low productivity. This cycle keeps a country in a state of perpetual poverty because the forces involved are mutually reinforcing. On the demand side, low income also limits market size, reducing the incentive for entrepreneurs to invest. Breaking this circle typically requires external intervention or a significant internal push to stimulate investment and growth.

39. (A) Both Statement I and Statement II are true.
Ragnar Nurkse's balanced growth theory advocates for a broad wave of investment across many different industries simultaneously. The primary goal of this strategy is to overcome the limitation of a small domestic market in developing countries. By investing in various sectors at once, the workers in each industry become customers for the products of others. This creates a mutually reinforcing demand, making individual investment projects profitable and sustainable through the expansion of the entire market.

40. (A) It is the process by which new innovations replace outdated technologies and business models.
Creative destruction is a central concept in Joseph Schumpeter's theory of economic development. It describes the dynamic process where innovative entrepreneurs introduce new products and production methods that revolutionize the economic structure. These innovations inevitably displace and destroy existing, less efficient companies and technologies. Schumpeter argued that this continuous cycle of destruction and creation is the essential fact of capitalism and the primary driver of long-term economic growth and structural change.

41. (B) P-3, Q-4, R-1, S-2
The Harrod-Domar model is famous for the knife-edge problem, where equilibrium growth is inherently unstable. The Solow model focuses on factor substitution and treats technological progress as an external variable. Nicholas Kaldor's model emphasizes the role of income distribution between wages and profits in determining an economy's savings and growth rate. Finally, Endogenous growth theory is distinguished by its treatment of knowledge and human capital as internal factors that can generate sustained long-run economic expansion.

42. (A) The forces of production and the relations of production.
In Marxian theory, the mode of production is the fundamental economic foundation of a society. It consists of two interconnected parts: the forces of production and the relations of production. The forces include the technology, machinery, and labour power available for producing goods. The relations refer to the social and property arrangements, such as the relationship between capitalists and workers. Together, these elements determine the structure of society and drive historical change through their internal contradictions.

43. (D) The age of creative destruction
W.W. Rostow's theory of development identifies five distinct stages that all nations pass through as they modernize. These stages are the traditional society, the preconditions for take-off, the take-off itself, the drive to maturity, and the age of high mass-consumption. The concept of creative destruction is not part of this model; instead, it is a key idea developed by Joseph Schumpeter to explain the disruptive nature of innovation and entrepreneurship within a capitalist economy.

44. (C) A is false but R is true.
In the neoclassical Solow growth model, an increase in the savings rate does not lead to a permanently higher rate of growth for per capita output. While a higher savings rate initially boosts growth during the transition, the economy eventually settles into a new steady state where growth returns to the exogenous rate of technological progress. However, the higher savings rate does result in a permanently higher level of output and capital per worker in the equilibrium.

45. (C) The growth of the labour force and the rate of technical progress.
In the Harrod-Domar growth model, the natural rate of growth represents the maximum possible

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Different metrics are used to analyze poverty and inequality from various perspectives. The headcount index measures the proportion of people who are poor, while the poverty gap index assesses the average depth of that poverty. The squared poverty gap index is used to measure the severity of poverty by giving more weight to the poorest individuals. Finally, the Gini coefficient is the standard measure used to evaluate the overall level of income inequality within a given population.

61. (C) Treats technology as an internal factor rather than an external one.

Endogenous growth theory represents a major departure from the neoclassical Solow model by treating technological progress as an internal outcome of the economic system. Instead of assuming technology improves at a constant, external rate, this theory argues that innovation is driven by intentional investments in human capital and research and development. By internalizing technology, these models explain how sustained long-run growth is possible without relying on exogenous shocks and why income levels across countries may not converge.

62. (D) The tendency of the rate of profit to fall.

In Karl Marx's analysis of capitalism, the fundamental cause of economic crises is the inherent tendency for the rate of profit to decline over time. Marx argued that competition forces capitalists to invest more in machinery and technology, which he called constant capital, relative to human labour, or variable capital. Since surplus value can only be extracted from labour, the increasing organic composition of capital inevitably squeezes profit rates, leading to periodic overproduction, unemployment, and systemic instability.

63. (B) Both Statement I and Statement II are false.

Economic growth is typically viewed as a quantitative and uni-dimensional concept, primarily measured by increases in gross domestic product or per capita income. In contrast, economic development is a multi-dimensional process that encompasses qualitative improvements, institutional reforms, and structural changes in the economy. Both statements provided in the question are incorrect because they reverse these definitions, erroneously attributing multi-dimensional characteristics to growth and a uni-dimensional nature to the broader concept of development.

64. (B) David Ricardo

David Ricardo was a classical economist who theorized that economic expansion would eventually reach a stationary state. He believed that population growth would require the use of less productive land, leading to diminishing returns in agriculture. This would increase food prices, necessitating higher subsistence wages for workers and thereby reducing the profits of industrial capitalists. Since profits are the primary driver of investment and growth, their inevitable decline would cause the economy to stop growing entirely in the long run.

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65. (A) Both A and R are true and R is the correct explanation of A.

The Physical Quality of Life Index was specifically designed to evaluate development outcomes without using income as a direct variable. Critics argued that excluding income was a weakness, as it is a major determinant of well-being. However, the creators of the PQLI maintained that the effects of income are already captured by indicators such as life expectancy and literacy. They believed that these social outcomes are more reliable measures of how effectively a society provides for the basic needs of its citizens.

66. (A) (a), (b), and (c)

The Big Push theory, developed by Paul Rosenstein-Rodan, is based on the idea that developing countries face significant obstacles due to various indivisibilities. These include indivisibility in the production function, where large-scale infrastructure is required; indivisibility of demand, which necessitates a broad market; and indivisibility in the supply of savings. Overcoming these hurdles requires a massive, coordinated investment program. Concepts like animal spirits or sequential, unbalanced investment are part of other development theories and not the Big Push.

67. (C) The strongest backward and forward linkage effects.

Albert Hirschman's strategy of unbalanced growth advocates for concentrating investment

in sectors that have the greatest potential to stimulate activity in other parts of the economy. These sectors are identified by their strong backward linkages, which create demand for inputs, and forward linkages, which provide essential outputs for other industries. By deliberately creating imbalances in these key areas, the government can induce further investment and entrepreneurial activity, leading to a chain reaction of growth throughout the entire national economy.

68. (D) The growth of output per worker.
In Nicholas Kaldor's growth model, the technical progress function is a central component that replaces the traditional neoclassical production function. This function establishes a direct relationship between the rate of capital accumulation and the rate of growth in labour productivity. It suggests that as capital per worker increases, output per worker also rises due to the technological improvements embodied in new machinery. This relationship highlights how investment and innovation work together to drive sustained economic expansion and improve living standards.

69. (C) $n + g$
In the neoclassical Solow growth model, the steady state is a condition where the economy grows at a constant and sustainable rate. When both population growth and technological progress are present, they both contribute to the overall expansion of the economy. While per capita output grows at the rate of technological progress alone, the total output of the economy grows at a rate equal to the sum of the population growth rate and the rate of technological advancement.

70. (B) Application of science, infrastructure development, and a new entrepreneurial class.
The preconditions for take-off is the second stage in W.W. Rostow's model, marking the transition from a traditional society to a modern economy. During this period, the society begins to apply modern science and technology to production, particularly in agriculture. Significant investments are made in transport and other basic infrastructure to expand the market. A new class of innovative entrepreneurs also emerges, willing to take risks and mobilize savings for productive investment, setting the stage for industrialization.

71. (B) P-3, Q-4, R-1, S-2
The Physical Quality of Life Index focuses on non-income indicators of basic well-being, such as literacy and mortality. The Human Development Index is a broader measure that includes health, education, and income as key components of human capability. The Gini coefficient is a mathematical tool used to quantify the degree of income or wealth inequality within a population. Finally, the headcount ratio is a simple measure that identifies the proportion of people living below the established poverty line.

72. (A) Lower infant mortality and lower fertility rates.
Improving female literacy is a cornerstone of social sector development because of its profound impact on family and societal well-being. Educated women tend to have better access to information regarding health and nutrition, which significantly reduces infant and child mortality rates. Furthermore, literacy is strongly linked to greater awareness of family planning and reproductive health, leading to lower fertility rates. These positive outcomes contribute to more sustainable population growth and a healthier, more productive future generation for the country.

73. (C) Amartya Sen
Amartya Sen pioneered a transformative approach to economic development that focuses on human capabilities and substantive freedoms. He argues that development should be measured not just by the growth of national income, but by the extent to which people have the freedom to lead the lives they value. This perspective emphasizes the importance of removing obstacles such as poverty, illiteracy, and poor health, which prevent individuals from realizing their full potential and participating meaningfully in their society.

74. (B) (a) and (b) only
The headcount ratio and the poverty gap index are two essential measures used to analyze the extent and nature of poverty. The headcount ratio identifies the proportion of the population living below the poverty line, but it does not

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account for how poor those individuals are. The poverty gap index addresses this limitation by measuring the average distance of the poor from the poverty line, reflecting the intensity of poverty. In contrast, the Gini coefficient measures inequality, not poverty.

75. (D) Endogenous Growth Theory
The AK model is one of the simplest and most influential versions of endogenous growth theory. In this model, the parameter A represents technology, and K is defined broadly to include both physical and human capital. Unlike the neoclassical Solow model, the AK model assumes constant returns to capital, meaning that diminishing returns do not occur. This allows the economy to achieve sustained per capita growth over the long run, driven entirely by internal factors such as savings and investment.

76. (C) A is true but R is false.
The Harrod-Domar model is well-known for demonstrating the potential instability of an economy, often described as the knife-edge problem. This instability arises because the model assumes a fixed-proportions production function where capital and labour cannot be substituted for one another. If the actual growth rate deviates even slightly from the warranted rate, the economy tends to move further away from equilibrium. The assertion is correct, but the reason provided is logically false as the model assumes no substitutability.

77. (C) Vicious Circle of Poverty
The statement that a country is poor because it is poor summarizes the concept of the vicious circle of poverty. This theory explains how low income levels lead to low savings, which in turn results in low investment and low productivity, creating a self-reinforcing cycle of stagnation. Both the supply and demand sides of the economy are trapped in this cycle, making it difficult for the nation to initiate growth without significant external intervention or structural reforms.

78. (D) Modern technology and production methods are extended to all fronts of economic activity.
The drive to maturity is the fourth stage in W.W. Rostow's model of economic development. It is a long period of sustained progress where the economy expands its technological base beyond the original leading sectors of the take-off. During this stage, the nation demonstrates the capacity to produce a wide range of goods and services using modern techniques. The economy becomes more integrated into the international market, and the workforce becomes increasingly skilled and professionalized.

79. (A) Entrepreneurs' investment decisions are driven by the expected rate of profit.
Joan Robinson's growth model is based on the post-Keynesian idea that the rate of capital accumulation is determined by the investment decisions of entrepreneurs. She emphasized that these decisions are motivated by the expected rate of profit, which is influenced by their animal spirits or psychological optimism. The model also assumes that the distribution of income between wages and profits plays a crucial role in determining the overall level of savings and the sustainability of the growth process.

80. (B) 4, 3, 1, 2
Economic growth theories have evolved significantly over time. The classical models of Adam Smith and David Ricardo emerged in the eighteenth and nineteenth centuries. The Harrod-Domar model, focusing on savings and investment, was developed in the nineteen-thirties and forties. The neoclassical Solow model, which introduced factor substitution and exogenous technology, appeared in the nineteen-fifties. Finally, endogenous growth models, which internalize technological progress and human capital, became prominent in the nineteen-eighties, providing a modern perspective on long-term economic expansion.

81. (B) More productive than older capital.
The concept of embodied technical progress implies that technological improvements are physically built into new machinery and equipment. As a result, each new generation of capital is inherently more efficient and productive than the previous one. This means that a country's overall productivity is closely linked to the age of its capital stock and its rate of new investment. In this framework, simply replacing old machines with new ones can lead

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to significant increases in an economy's total output.

82. (A) HDI includes an income component, while PQLI does not.
The Human Development Index and the Physical Quality of Life Index are both composite measures used to evaluate development beyond simple economic growth. However, they differ significantly in their choice of indicators. The HDI includes gross national income per capita as a measure of a decent standard of living, alongside health and education. The PQLI, conversely, was designed to focus entirely on social outcomes and intentionally excludes any direct measure of income, using only life expectancy, infant mortality, and literacy.

83. (C) Statement I is true, but Statement II is false.
The Gini coefficient is a statistical measure of distribution often used to gauge income or wealth inequality within a population. It is mathematically derived from the Lorenz curve, which plots the cumulative percentages of total income against the cumulative number of recipients. A Gini coefficient of zero represents perfect equality, where everyone has the same income. Conversely, a coefficient of one indicates perfect inequality, meaning a single individual possesses all the nation's total wealth. Therefore, the second statement provided is false.

84. (D) Gender Equality
Goal 5 of the Sustainable Development Goals specifically aims to achieve gender equality and empower all women and girls. This goal addresses various forms of discrimination and violence against women, while also promoting equal rights to economic resources, property ownership, and leadership positions. By ensuring that women have an equal voice in all areas of life, this goal is fundamental to achieving overall social justice and sustainable development for all nations by the year 2030.

85. (C) Improving access to primary healthcare.
Social sector development focuses on improving the quality of life and human capabilities through investments in essential services. Improving access to primary healthcare is a direct and crucial aspect of this process, as it enhances the health and productivity of the population. This type of development creates positive externalities that benefit the entire society over the long run. In contrast, corporate tax rates, stock exchanges, and export earnings are primarily concerned with the financial and industrial sectors.

86. (B) (a), (b), (e)
Adam Smith's classical theory highlights the division of labour as the primary driver of economic specialization and productivity. Joseph Schumpeter's theory centers on the concept of creative destruction, where innovative entrepreneurs constantly revolutionize the economic structure. Endogenous growth theories emphasize the critical role of human capital and knowledge in generating sustained, long-term economic expansion. Together, these concepts represent fundamental pillars of development thinking, illustrating how specialization, innovation, and education collectively contribute to the wealth of nations and societal progress.

87. (D) The invisible hand guiding self-interest to promote social good.
Adam Smith famously argued that individuals pursuing their own self-interest in a free market inadvertently promote the well-being of society as a whole. He described this mechanism as the invisible hand, which allocates resources efficiently without the need for central planning. Smith believed that government intervention should be minimized to allow the market to function naturally. This laissez-faire philosophy remains a cornerstone of classical economic theory, emphasizing that competition and free trade are the best ways to achieve prosperity.

88. (A) The production function and factor substitutability.
A fundamental distinction between the Harrod-Domar and Solow growth models lies in their assumptions about the production function. The Harrod-Domar model utilizes a fixed-proportions production function, meaning capital and labor must be used in rigid ratios. This leads to the unstable knife-edge equilibrium. The Solow model, however, introduces a neoclassical production function that allows for continuous substitution between capital and labor. This flexibility ensures that the

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economy can naturally adjust factor intensities to maintain a stable and balanced growth path.

89. (A) Both A and R are true and R is the correct explanation of A.
Proponents of the unbalanced growth strategy argue that it is a more practical approach for developing nations compared to balanced growth. This is because most low-income countries face severe shortages of capital, technical skills, and administrative capacity. Coordinating a massive, simultaneous investment push across all sectors is often impossible. By focusing resources on a few strategically chosen industries with strong linkages, these countries can effectively stimulate activity elsewhere, making the most efficient use of their limited available resources.

90. (A) Capital-output ratio.
In the Harrod-Domar growth model equation, the variable v represents the capital-output ratio, which measures the amount of capital required to produce one unit of annual output. This ratio reflects the productivity of capital within the economy; a lower ratio means capital is more efficient. The model suggests that the growth rate is determined by dividing the savings rate by this capital-output ratio. Therefore, the efficiency of capital is a crucial factor in determining the overall rate of economic expansion.

91. (B) P-4, Q-3, R-2, S-1
The classical school, including Smith and Ricardo, focused on capital accumulation and the eventual transition to a stationary state. Marxian theory emphasizes class struggle and the extraction of surplus value as the drivers of capitalist development and crisis. The neoclassical school, represented by Solow, highlights the role of exogenous technology and the prediction of conditional convergence between nations. Finally, post-Keynesian models, such as those by Kaldor and Robinson, emphasize the importance of income distribution in determining growth.

92. (B) The extent to which average poor person's income falls below the poverty line.
The poverty gap index is a crucial measure that goes beyond the simple headcount of the poor to assess the depth of poverty. It calculates the average shortfall of the total population from the poverty line, with the non-poor having zero shortfall. This index provides a sense of the intensity of poverty and the amount of resources that would be required to lift everyone out of poverty through perfectly targeted cash transfers or other interventions.

93. (C) An immediate increase in the Gini coefficient.
Investing in girls' education is widely recognized as one of the most effective ways to promote long-term development. It typically leads to lower fertility rates, improved child nutrition, and higher female labour force participation. These outcomes enhance human capital and social well-being across generations. While education may eventually help reduce inequality, it is not expected to cause an immediate increase in the Gini coefficient, which is a measure of the overall distribution of income within a country.

94. (D) It treats technical progress as a function of capital accumulation.
Nicholas Kaldor's growth model is distinct because it endogenizes technological progress through the introduction of a technical progress function. This function suggests that the rate of growth in output per worker is positively related to the rate of growth in capital per worker. Essentially, new technology is often embodied in new capital equipment, meaning that investment and innovation are inseparable. This approach differs from neoclassical models that treat technological advancement as an entirely external or exogenous variable.

95. (A) (a) and (b) only
Economic development is a comprehensive concept that goes far beyond simple increases in national income. While economic growth is quantitative and focuses on output, development is multi-dimensional and includes improvements in health, education, and general human well-being. It involves structural changes in the economy and society that enhance quality of life. Therefore, it cannot be measured by a single indicator like income per capita, nor does it always lead to a reduction in income inequality without specific policy interventions.

96. (B) W.W. Rostow
The age of high mass-consumption is the final and most advanced stage in W.W. Rostow's

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life expectancy at age one, the infant mortality rate, and the basic literacy rate. Each of these components is indexed on a scale from zero to one hundred. By focusing on these factors, the PQLI highlights how well a country is meeting the essential needs of its population.

125. (C) Joseph Schumpeter

Creative destruction is the central concept in Joseph Schumpeter's theory of economic development. It describes the dynamic process where innovative entrepreneurs introduce new products and production methods that revolutionize the economic structure. These innovations inevitably displace and destroy existing, less efficient companies and technologies. Schumpeter argued that this continuous cycle of destruction and creation is the essential fact of capitalism and the primary driver of long-term economic growth and structural change within a market economy.

126. (D) Economic growth but not economic development.

A rise in real GDP per capita signifies economic growth, as it indicates a quantitative increase in the total output produced per person. However, economic development is a much broader concept that encompasses qualitative improvements in life, such as better health, higher literacy, and reduced inequality. If a country experiences income growth without corresponding improvements in these social indicators, it has achieved growth but failed to develop in a holistic sense. Development requires that the benefits of growth be translated into broader human well-being.

127. (A) The Poverty Gap Index

The poverty gap index is a measure of the intensity of poverty, reflecting the average distance of the poor from the poverty line. If a policy increases the income of the poorest individuals without lifting them above the poverty line, the headcount ratio will remain unchanged. However, because these individuals are now closer to the threshold, the poverty gap index will show a clear improvement. This highlights why the index is a useful tool for evaluating policies that benefit the very poorest members of society.

128. (A) Both Statement I and Statement II are true.

The strategies of balanced and unbalanced growth offer different approaches to infrastructure and industrial development. The unbalanced growth strategy, advocated by Hirschman, suggests a sequential approach where investment in either social overhead capital or directly productive activities creates pressures for the other to follow. In contrast, the balanced growth strategy suggests that a country should invest simultaneously in both types of activities. This coordination ensures that infrastructure and industrial capacity expand together, preventing bottlenecks and supporting a broad market expansion.

129. (B) The technical progress function and the savings function.

In Nicholas Kaldor's growth model, the equilibrium rate of growth is achieved through the interaction of the technical progress function and the savings function. The technical progress function relates the growth of output per worker to the growth of capital per worker. The savings function depends on the distribution of income between wages and profits. Together, these two functions determine the unique rate of growth where the economy is in a state of dynamic equilibrium, with the share of profits adjusting to ensure that savings equal investment.

130. (A) The Solow neoclassical model.

The convergence hypothesis is a core prediction of the neoclassical Solow growth model. It suggests that if countries have similar savings rates, population growth rates, and access to technology, their per capita income levels will eventually equalize. This happens because countries with less capital per worker experience higher marginal returns on investment, leading to faster growth rates compared to capital-rich nations. This process of catching up is often referred to as conditional convergence in modern economic development literature.

131. (A) P-4, Q-1, R-2, S-3

The Sustainable Development Goals are seventeen interconnected global objectives designed to be a blueprint for a better world. Goal 1 aims to end poverty in all its forms everywhere. Goal 4 focuses on ensuring inclusive and equitable quality education and

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Relative poverty is a measure of inequality that defines poverty in relation to the average standard of living in a specific society. An individual is considered relatively poor if their income or resources are significantly below the median or average level for their community. Unlike absolute poverty, which focuses on basic survival needs, relative poverty highlights the social and economic exclusion that results from having much less than others, even if one's basic biological needs are met.

104. (A) It ignores the problem of limited market size in developing countries.

The balanced growth theory, advocated by Ragnar Nurkse, is explicitly designed to address the problem of limited market size in developing countries. It suggests that simultaneous investment in many industries will create a broad market where workers in each sector become customers for others. While the theory has been criticized for its massive resource and coordination requirements, it cannot be accused of ignoring the market size issue, as that is the very challenge it seeks to resolve through coordinated investment.

105. (C) 3, 1, 4, 2.

Thinking about progress has evolved from simple quantitative measures to more holistic and ethical frameworks. Economic growth is the narrowest concept, focusing solely on output increases. Economic development is broader, including structural and institutional changes. Human development expands this further by emphasizing individual capabilities, freedoms, and well-being. Finally, sustainable development is the broadest concept, as it incorporates the previous goals while ensuring that current progress does not compromise the needs and resources of future generations.

106. (A) Capital per worker and output per worker are constant.

In the neoclassical Solow growth model, the steady state is the long-run equilibrium of the economy. It occurs when the amount of new investment exactly matches the amount of capital needed for replacement and for new workers entering the labour force. In this state, both the capital stock per worker and the output per worker remain constant over time. Although total output and total capital continue to grow at the rate of population growth, per capita variables do not change.

107. (D) Unbalanced Growth Theory

The unbalanced growth theory, proposed by Albert O. Hirschman, suggests that development is best achieved by strategically creating disequilibria in the economy. Rather than trying to grow all sectors at once, a country should focus its limited resources on key industries with strong linkages. These investments create pressures and incentives that motivate other sectors to expand. This dynamic process of moving from one imbalance to another induces further investment and entrepreneurial activity, eventually leading to widespread economic growth throughout the nation.

108. (B) P-4, Q-3, R-1, S-2

Karl Marx's theory focuses on class conflict and the historical progression of modes of production. Joan Robinson is known for her work on the Golden Age, a smooth growth path where capital accumulation matches labour growth. Robert Solow developed the neoclassical model that explains growth through factor substitution and exogenous technology, predicting conditional convergence. Adam Smith emphasized the importance of the division of labour and the invisible hand of the market as the primary drivers of national wealth and prosperity.

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109. (C) They are human capital investments that increase productivity and growth.

Health and education are increasingly viewed by economists as essential investments in human capital. By improving the physical well-being and intellectual skills of the population, these expenditures enhance the productive capacity of the workforce. Healthy and educated individuals are more efficient, innovative, and better equipped to utilize modern technology. Consequently, spending in these social sectors is not merely consumption but a vital driver of long-term economic development and sustainable growth for any nation.

110. (C) (a), (b), (c), (e)

Classical and modern development theories offer various perspectives on the growth process.

theory of economic development. In this stage, the economy shifts its focus from basic industrial production to the widespread consumption of durable goods and sophisticated services. The society becomes increasingly urbanized, and there is a significant expansion in social welfare and security. This stage represents the achievement of a high standard of living where the population enjoys a vast array of consumer choices.

97. (B) Any increase in per capita income is offset by population growth.

A low-level equilibrium trap is a situation common in developing countries where a small increase in national income leads to a corresponding rise in population. This population growth quickly consumes the additional resources, causing per capita income to fall back to the subsistence level. Consequently, the economy remains stuck in a state of stagnant poverty. Breaking this trap requires a significant increase in the rate of investment that exceeds the rate of population growth to ensure sustained improvements.

98. (C) Statement I is true, but Statement II is false.

Joseph Schumpeter's theory of economic development places the entrepreneur at the heart of the growth process. He argued that the essential function of the entrepreneur is innovation, which involves introducing new products, methods, or markets. While many people associate entrepreneurship with taking risks, Schumpeter explicitly stated that the risk is primarily borne by the capitalist who provides the funds. For Schumpeter, the entrepreneur is defined by their creative ability to disrupt the existing economic equilibrium through innovation.

99. (C) It broadly defines 'K' to include human capital.

The AK model is a fundamental endogenous growth theory where output is a linear function of capital. Unlike neoclassical models, it does not exhibit diminishing returns because it uses a broad definition of capital that includes both physical machinery and human knowledge. As a result, the marginal product of capital remains constant even as the capital stock grows. This assumption allows the economy to achieve sustained per capita growth over the long run, driven by internal factors like savings.

100. (D) Sustainable Development.

Sustainable development is a holistic approach to progress that emphasizes the importance of balancing economic growth with social equity and environmental protection. Its core principle is to meet the basic needs of the current population without compromising the ability of future generations to meet their own needs. This concept encourages the responsible use of natural resources and promotes long-term stability. It has become a central theme in global development policy, particularly through the United Nations' Sustainable Development Goals.

101. (C) Gender Inequality Index (GII)

The Gender Inequality Index is a composite measure published by the United Nations Development Programme to evaluate disparities between women and men. It focuses on three specific areas of human development: reproductive health, empowerment, and labour market participation. By measuring these gaps, the index provides a clear picture of how gender inequality hinders a country's potential for progress. Other indicators like the HDI or Gini coefficient measure average achievement or general income distribution but do not specifically target gender disparities.

102. (A) Both A and R are true and R is the correct explanation of A.

The neoclassical Solow growth model predicts a phenomenon known as conditional convergence. This theory suggests that countries with similar structural characteristics, such as savings rates, population growth rates, and access to technology, will eventually reach the same steady-state level of per capita income. Poor countries will grow faster as they catch up to rich countries because they experience higher marginal returns to capital. This convergence is conditional because it only occurs among nations that share comparable economic and institutional features.

103. (D) A condition of having significantly less income than other members of a society.

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in schooling and literacy between men and women. In many societies, women face various cultural, economic, and institutional barriers that limit their access to education compared to men. Closing this gap is a key objective of development policy, as educating women leads to significant positive externalities, including improved family health, lower fertility rates, and increased economic productivity for the entire nation.

118. (A) Both A and R are true and R is the correct explanation of A.
Karl Marx argued that the internal logic of capitalism would eventually lead to its collapse. He believed that competition among firms would force capitalists to increasingly invest in machinery to replace human labour. This shift would cause the rate of profit to decline over time, as surplus value can only be extracted from living labour. These economic pressures, combined with the resulting class conflict between the bourgeoisie and the proletariat, would create the conditions for a systemic transformation.

119. (D) Zero growth in population and capital.
In classical Ricardian economics, the stationary state is the ultimate long-run equilibrium of the economy. It is reached when diminishing returns in agriculture have pushed up food prices and subsistence wages, causing industrial profits to fall to zero. At this point, there is no longer any incentive for capitalists to invest or for the population to grow. The economy enters a state of stagnation where both the capital stock and the population remain constant, and net economic growth ceases entirely.

120. (C) Joan Robinson
Joan Robinson developed a prominent post-Keynesian growth model that emphasizes the role of capital accumulation and entrepreneurship. She introduced the concept of animal spirits to describe the psychological motivations that drive investment decisions under uncertainty. Her model also identifies the Golden Age as a state of smooth, full-employment growth where capital accumulation perfectly matches labour force expansion. By focusing on income distribution and the instability of investment, Robinson provided a significant alternative to the neoclassical models of her time.

121. (C) Entrepreneurs' expectations are fulfilled and they continue investing.
In the Harrod-Domar growth model, the warranted growth rate is the rate at which aggregate demand is exactly sufficient to utilize the existing capital stock. When the economy grows at this rate, entrepreneurs find that their past investment decisions were correct because their capacity is fully utilized without any excess. Consequently, they are motivated to continue investing at the same rate. This ensures that the growth process remains self-sustaining, provided the economy stays on this specific dynamic equilibrium path.

122. (B) (a), (c), and (d)
The Human Development Index is a composite measure designed by the United Nations to evaluate a country's average achievements in human well-being. It focuses on three primary dimensions: a long and healthy life, measured by life expectancy at birth; knowledge, measured by years of schooling; and a decent standard of living, measured by gross national income per capita. While factors like political freedom and environmental quality are important for overall development, they are not currently included in the standard HDI calculation.

123. (D) Constant returns to capital.
The AK model is a fundamental endogenous growth theory that differs significantly from the neoclassical Solow model. Its primary distinction is the assumption of constant returns to capital, represented by the parameter A. In the Solow model, increasing capital eventually leads to diminishing marginal returns, which halts per capita growth. However, the AK model defines capital broadly to include human knowledge and technology, which prevents these returns from falling. This allows the economy to achieve sustained per capita growth over the long run.

124. (B) Life expectancy, infant mortality, and literacy.
The Physical Quality of Life Index was developed in the nineteen-seventies to provide a measure of development that focuses on social outcomes rather than income. It is calculated by taking the simple average of three specific indicators:

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the expansion and give growth a self-sustaining character. A shift towards consumer durables is characteristic of a much later stage in the model.

139. (D) Embodied technical progress
Embodied technical progress occurs when technological improvements are physically incorporated into new capital equipment. A more efficient tractor is a perfect example of this concept, as the productivity gains—such as using less fuel and labor—are tied specifically to the use of that new piece of machinery. This type of progress implies that the overall efficiency of an economy is closely linked to its rate of new investment and the age of its capital stock, as newer machines are inherently more productive.

140. (B) Unbalanced Growth Theory (Hirschman)
Albert Hirschman's theory of unbalanced growth centers on the concepts of backward and forward linkages. Backward linkages occur when an investment in a specific industry creates demand for inputs from other sectors. Forward linkages occur when the output of an industry becomes an essential input for others. Hirschman argued that by strategically investing in sectors with the strongest linkages, a country can induce further investment and entrepreneurial activity, leading to a chain reaction of development throughout the entire economy.

141. (C) Quality of life, health, education, and equity are also important.
The shift in focus from growth to development reflects the understanding that an increase in national income does not automatically improve the lives of all citizens. While growth is a necessary quantitative measure, development is a broader qualitative concept. It encompasses improvements in social indicators such as life expectancy, literacy, and gender equality. This perspective recognizes that true progress involves expanding human capabilities and ensuring that the benefits of economic expansion are distributed equitably to enhance the overall quality of life.

142. (D) Value created by workers beyond their labour-cost, appropriated by the capitalist.
In Marxian analysis, surplus value is the cornerstone of the capitalist mode of production. It represents the difference between the value that workers produce during their working day and the subsistence wage they receive from the capitalist. Marx argued that since the capitalist owns the means of production, they are able to appropriate this surplus value as profit. This process is viewed by Marx as a form of exploitation that leads to capital accumulation and the eventual contradiction between social classes.

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143. (A) Both Statement I and Statement II are true.
In the neoclassical Solow growth model, technological progress is treated as an exogenous variable, meaning it is determined outside the economic system and is available to all countries. Endogenous growth models, however, seek to explain the origins of technological advancement within the model itself. These theories argue that innovation is the result of intentional investment in human capital and research and development. By internalizing technology, these models provide a deeper understanding of sustained long-term economic growth and productivity.

144. (B) The ratio of the rate of growth to the capitalists' propensity to save.
In Nicholas Kaldor's growth model, the rate of profit in a state of dynamic equilibrium is determined by the growth rate of the economy and the savings behavior of the capitalist class. Kaldor assumed that capitalists have a much higher propensity to save out of their income than workers. Therefore, for a given rate of investment and growth, the share of profits in national income must adjust until the total savings in the economy are equal to the required investment, establishing the equilibrium rate of profit.

145. (B) The warranted rate of growth and the natural rate of growth.
The knife-edge problem in the Harrod-Domar model describes the extreme difficulty of achieving a stable growth path in a capitalist economy. This instability occurs because there is no mechanism to ensure that the warranted growth rate, which satisfies entrepreneurs, matches the natural growth rate, which is determined by population and technology. If these two rates differ, the economy will

promoting lifelong learning opportunities for all. Goal 10 is dedicated to reducing inequalities within and among countries. Goal 13 calls for urgent action to combat climate change and its impacts, reflecting the comprehensive nature of this international development agenda.

132. (D) The subsistence level.
The iron law of wages was a classical economic theory which proposed that real wages would always tend toward the minimum amount necessary for the subsistence of the worker. This idea was based on the belief that if wages rose above this level, the population would increase, leading to a greater supply of labour that would eventually drive wages back down. Both David Ricardo and Thomas Malthus contributed to this pessimistic view of long-term wage trends during the early stages of the industrial revolution.

133. (C) An increase in the aggregate savings rate.
Joseph Schumpeter identified innovation as the primary driver of economic development. He categorized innovation into five specific forms: the introduction of a new good, a new method of production, the opening of a new market, the conquest of a new source of raw materials, or the reorganization of an industry. An increase in the aggregate savings rate, while important for capital accumulation in other theories, is not considered a form of innovation in Schumpeter's framework, which focuses on qualitative change.

134. (C) (c) and (d)
The Kaldor and Joan Robinson models are prominent post-Keynesian theories that emphasize the importance of income distribution in the growth process. Unlike neoclassical models, they assume that the propensity to save is different for workers and capitalists. Therefore, the overall savings and investment rates of the economy depend on how national income is shared between wages and profits. These models explore how shifts in income distribution can help an economy achieve a stable growth path or lead to periods of instability and unemployment.

135. (D) Endogenous growth theory.
Endogenous growth theory posits that sustained economic expansion is driven by the production and diffusion of knowledge. Because knowledge is a non-rival good, one person's use of it does not diminish its availability for others. This characteristic, combined with positive externalities or spillovers, leads to increasing returns to scale in the economy. By internalizing these effects, the theory explains how intentional investments in human capital and research and development can permanently increase a nation's long-term growth rate and productivity.

136. (A) Both A and R are true and R is the correct explanation of A.
Improving public health is a fundamental component of social sector development because of its direct impact on human capabilities. A healthier population is more productive, as individuals are less likely to miss work or school due to illness and can perform their tasks more effectively. Furthermore, better health leads to a longer life expectancy, which increases the total period during which people can contribute to the economy. Therefore, investments in health create significant positive externalities that drive overall economic and social progress.

137. (C) The Gini coefficient measures the area between the line of perfect equality and the Lorenz curve.
The Lorenz curve and the Gini coefficient are mathematically related tools used to analyze income distribution. The Lorenz curve provides a visual representation by plotting cumulative income against the cumulative population. The Gini coefficient is a numerical summary derived from this curve. It is calculated by taking the ratio of the area between the forty-five-degree line of perfect equality and the Lorenz curve to the total area under the line of perfect equality. A higher coefficient reflects greater inequality.

138. (A) (a), (b), and (c)
According to W.W. Rostow, the take-off is a decisive stage of growth that requires three specific conditions. First, the rate of productive investment must rise to over ten percent of the national income. Second, there must be the development of one or more substantial manufacturing sectors. Finally, there must exist a social and political framework that can exploit

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Adam Smith emphasized specialization, while David Ricardo introduced the constraints of land and diminishing returns. Karl Marx focused on the internal contradictions of capitalism and the role of class struggle. W.W. Rostow proposed a historical framework of five linear stages. However, Joseph Schumpeter highlighted the disruptive role of the innovative entrepreneur rather than government planning, which is a key distinction among these diverse economic theories.

111. (A) Take advantage of external economies and indivisibilities.

The core argument of the Big Push theory is that developing countries are trapped in a low-level equilibrium that cannot be broken by small, isolated investments. A massive, coordinated investment program is required to overcome various indivisibilities in infrastructure and production. Such a push allows the economy to benefit from external economies, where different industries create demand for each other. This collective effort makes individual projects profitable and sustainable, eventually leading the economy toward a path of self-sustaining growth.

112. (A) Both Statement I and Statement II are true.

The Harrod-Domar model is built upon a Leontief-style production function, which assumes that capital and labour are used in fixed proportions with no possibility of substitution. This rigidity is what creates the model's inherent instability. In contrast, the Solow growth model adopts a neoclassical production function, such as the Cobb-Douglas form. This allows for variable proportions and smooth substitution between factors of production. These differing assumptions are central to how each model explains the process of economic growth and stability.

113. (B) Permitted by the growth of the labor force and technological progress.

In the Harrod-Domar growth model, the natural rate of growth represents the maximum possible expansion rate determined by factors outside the model. These factors include the growth of the labour force and the pace of technological advancement. It defines the potential ceiling of the economy's growth. For long-run equilibrium with full employment, this natural rate must be equal to the warranted rate of growth, which ensures that entrepreneurs are satisfied with their investment decisions and continues expansion.

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114. (A) Productivity of all factors increases, regardless of their age or entry.

Disembodied technical progress refers to improvements in productivity that are not tied to any specific new capital goods. It represents a general shift in the production function, allowing for more output to be produced from the same amount of existing inputs. This type of progress often results from better organizational methods, enhanced managerial techniques, or the diffusion of knowledge throughout the economy. It benefits all capital and labour in the economy simultaneously, regardless of when they were first utilized.

115. (C) Are universally applicable to all countries.

A significant difference between the Sustainable Development Goals and the earlier Millennium Development Goals is their scope of application. The MDGs were primarily focused on addressing challenges in developing countries. In contrast, the SDGs are a universal set of goals that apply to all nations, regardless of their level of development. They recognize that sustainability and equality are global challenges that require collective action from both rich and poor countries to achieve a prosperous and equitable future for everyone.

116. (D) Gini Coefficient

Economists use different measures to analyze the standard of living and the distribution of resources in a society. The headcount ratio, poverty gap index, and multidimensional poverty index are all specific tools used to identify and quantify the extent and nature of poverty. The Gini coefficient, however, is a measure of inequality. it quantifies the degree to which income or wealth is distributed across a population, identifying gaps between the rich and the poor without defining a poverty line.

117. (C) The educational attainment levels of males and females.

The gender gap in education is a critical measure of social disparity, reflecting the difference

experience either persistent unemployment or worsening inflation. The model's lack of factor substitutability prevents the economy from self-correcting toward a balanced equilibrium.

146. (A) Problems of effective demand and the influence of animal spirits.

Joan Robinson made a major contribution to growth theory by integrating Keynesian ideas about effective demand and psychological motivations into a long-run framework. She introduced the concept of animal spirits to explain how the investment decisions of entrepreneurs are driven by optimism and expectations rather than just mechanical calculations. Her model highlights the inherent instability of the growth process and emphasizes that capital accumulation is a result of the dynamic interaction between entrepreneurial initiative, income distribution, and the supply of labour and technology.

147. (C) Human Development Index (HDI)

The Human Development Index is a composite measure used to rank countries based on three key dimensions of human well-being. These include a long and healthy life, measured by life expectancy at birth; access to knowledge, measured by mean years of schooling and expected years of schooling; and a decent standard of living, measured by gross national income per capita. By combining these different indicators, the HDI provides a more holistic view of development than income alone can offer.

148. (D) Amartya Sen

Amartya Sen pioneered the capability approach to development, which argues that poverty is more than just a lack of income. He defines poverty as a fundamental deprivation of basic capabilities that prevents individuals from leading the lives they value. These capabilities include the freedom to be healthy, well-nourished, and educated. Sen's work emphasizes that development should focus on expanding human freedoms and providing people with the opportunities to realize their full potential, rather than simply increasing the gross national product.

149. (C) (a), (b), and (d)

Social sector development focuses on enhancing the quality of human life and expanding individual capabilities. Key components of this process include the expansion of primary education, the improvement of public healthcare, and the promotion of gender equality. These initiatives directly benefit the population and lead to positive long-term externalities. In contrast, large infrastructure projects like highways or macroeconomic policies like banking deregulation are generally categorized under the economic or industrial sectors rather than the social sector specifically.

150. (A) Both A and R are true and R is the correct explanation of A.

The Physical Quality of Life Index uses a standardized scale from zero to one hundred for each of its three component indicators: infant mortality, life expectancy, and literacy. This scaling method is essential because it allows the index to combine diverse measurements into a single, comparable figure. By normalizing the data, the PQLI can be used to rank countries and track their progress in social development over time, regardless of the original units of measurement used for the individual indicators.

151. (D) Adam Smith

Adam Smith, often considered the father of modern economics, published his seminal work, An Inquiry into the Nature and Causes of the Wealth of Nations, in seventeen seventy-six. In this book, he explored the role of the division of labour, the pursuit of self-interest, and the invisible hand of the market in driving economic prosperity. His ideas laid the foundation for classical economic theory and continue to influence contemporary thought on trade, competition, and the role of the state in the economy.

152. (A) Landlords, due to rising rents from scarce land.

In David Ricardo's classical theory of distribution, landlords were seen as the primary beneficiaries of economic growth. Ricardo argued that as population grows, more food is needed, forcing the cultivation of less fertile land. This increases the rent on better land, which landlords collect. Meanwhile, food prices rise, pushing up subsistence wages and squeezing

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per worker directly to the rate of capital accumulation. This function replaces the traditional production function used in other models. While both Kaldor and Robinson were post-Keynesians who focused on the importance of income distribution and capital accumulation, Robinson's work placed more emphasis on the role of animal spirits and the Golden Age equilibrium.

208. (B) A very high level of income inequality.
The Gini coefficient is a mathematical measure used to represent the distribution of income within a population. Its value ranges from zero to one, with higher numbers indicating a more unequal distribution. A Gini coefficient of zero point six-five is considered very high by international standards, signifying that a large proportion of the nation's total income is concentrated in the hands of a small percentage of the population. This level of inequality is often associated with significant social and economic challenges within a country.

209. (A) Both Statement I and Statement II are true.
Technical progress can be categorized based on its relationship with capital investment. Embodied technical progress suggests that new technological advancements can only be utilized by investing in and installing new machinery and equipment. In this view, older capital does not benefit from newer innovations. Conversely, disembodied technical progress refers to general improvements in efficiency, organization, or knowledge that enhance the productivity of all existing factors of production simultaneously. Both concepts are essential for understanding how innovation impacts economic output and productivity over time.

210. (A) W.W. Rostow's stages of economic growth.
W.W. Rostow proposed a historical and linear model which argues that all countries pass through a sequence of five distinct stages of development. These stages are the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption. Rostow believed that this progression was inevitable for any nation as it modernized and industrialized. His theory provided a common framework for understanding the economic history of developed nations and a potential roadmap for emerging economies.

211. (C) It decreases the steady-state level of capital per worker.
In the neoclassical Solow growth model, an increase in the population growth rate has a negative effect on the steady-state level of capital per worker. This is because a larger share of the nation's savings must be used just to provide new workers with the existing amount of capital, leaving less for increasing the capital stock per person. Consequently, a faster-growing population leads to a lower level of capital-intensity and a lower level of steady-state output per worker, reducing average living standards.

212. (D) Establishing a Single Global Currency
The Sustainable Development Goals are seventeen global objectives established by the United Nations to address a wide range of social, economic, and environmental issues. These goals include providing affordable and clean energy, reducing inequalities, and protecting life on land. While the SDGs call for international cooperation and financial stability, they do not include the establishment of a single global currency as one of their targets. The SDGs prioritize fundamental human needs, environmental protection, and equitable development for all nations by the year 2030.

213. (C) Low income → Small market size → Low inducement to invest.
The vicious circle of poverty operates on the demand side of the economy by limiting the incentive for investment. When a country's population has very low income, the domestic market for goods and services remains small. This small market size means that individual investment projects are often not profitable because there are not enough customers with the purchasing power to buy the products. Consequently, entrepreneurs are discouraged from investing, leading to low productivity and keeping the nation trapped in a cycle of stagnant income.

214. (B) The launch of a nationwide immunization campaign for children.
Social sector development focuses on improving human capabilities and well-being through

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faster than the population, leading to sustained increases in the standard of living.

160. (B) The substitubality between capital and labor.
The Harrod-Domar growth model is built on several key assumptions, including a fixed-proportions production function. This means that capital and labour must be used in rigid ratios, and there is no possibility of substitution between them. This specific lack of substitutability is what leads to the model's famous knife-edge problem, where achieving a stable equilibrium with full employment is extremely difficult. Other central features of the model include the role of savings and investment in creating both income and productive capacity.

161. (B) Provide a theoretical basis for how policy can affect long-run growth.
Endogenous growth theory represents a major shift in economic thought by arguing that long-run growth is determined by factors within the economy. Unlike neoclassical models where policy can only influence the level of income, endogenous models show that government actions can permanently alter the growth rate. Policies that promote education, protect intellectual property, and fund research and development create positive externalities. These interventions generate increasing returns to scale, allowing for sustained economic expansion over time driven by human capital.

162. (A) Both saw technological innovation as the central driving force of development.
Adam Smith and David Ricardo were classical economists who focused primarily on capital accumulation and the role of markets in the development process. While they recognized the importance of efficiency, they did not see technological innovation as the central, systematic driving force of growth in the way that later theorists like Schumpeter did. Smith was generally optimistic about the prospects for growth through specialization, whereas Ricardo famously predicted that diminishing returns in agriculture would lead to a stationary state.

163. (C) 0 and 1
The Gini coefficient is a standard mathematical measure used to quantify the degree of income or wealth inequality within a given population. Its value ranges from zero to one. A coefficient of zero represents perfect equality, where every individual has exactly the same income. A coefficient of one represents perfect inequality, where a single person possesses all the income or wealth in the society. Most countries have Gini coefficients between zero point three and zero point six for their national income distribution.

164. (D) Ability to apply technology across a wide range of resources.
The drive to maturity is the fourth stage in W.W. Rostow's model of economic development. It is characterized by the economy's ability to extend modern technology beyond the original leading sectors of the take-off to all areas of economic activity. During this stage, the nation demonstrates that it has the technological and entrepreneurial skills to produce anything it chooses, rather than being limited to a few industrial outputs. The workforce becomes increasingly specialized, and the economy becomes more integrated and mature.

165. (C) Funding a vocational training program for workers.
Human capital refers to the stock of skills, knowledge, and health embodied in the labour force that increases its productivity. Funding a vocational training program is a direct investment in human capital because it enhances the specific skills and technical capabilities of workers. Such investments are crucial for economic development as they allow for more efficient production and faster adoption of new technologies. In contrast, investments in machinery or roads are forms of physical capital, while purchasing bonds is a financial investment.

166. (A) (a), (b), and (c)
Different economic theories highlight various drivers of growth. Joseph Schumpeter focused on the role of innovative entrepreneurs and the process of creative destruction. Karl Marx analyzed capitalism through the concepts of surplus value and class struggle between the owners of capital and the workers. Adam Smith emphasized the invisible hand of the market and the productivity gains from the division of labour and specialization. These diverse perspectives represent the fundamental evolution of thought

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regarding the nature and causes of economic development.

167. (A) Both A and R are true and R is the correct explanation of A.
The Big Push theory, developed by Paul Rosenstein-Rodan, argues that developing countries need a large, coordinated investment effort to become productive. This is because many individual investment projects only become profitable when other supporting industries and infrastructure are also in place. By coordinating these investments, the government can ensure that various sectors take advantage of external economies and create mutual demand. This collective push is necessary to overcome the various market failures and indivisibilities that often trap low-income economies in stagnation.

168. (A) Diminishing marginal returns to capital.
The AK model is a simple yet powerful endogenous growth model where output is a linear function of capital. Its most important feature is the absence of diminishing marginal returns to capital, which is a key assumption in the neoclassical Solow model. In the AK model, capital is defined broadly to include human knowledge and technology. As a result, the marginal productivity of capital remains constant, allowing for sustained per capita growth in the long run driven entirely by internal factors like savings.

169. (C) Disembodied technical progress.
Disembodied technical progress refers to improvements in productivity that are not physically incorporated into any new pieces of capital equipment. It represents a general shift in the production function, allowing for more output to be produced from the same amount of existing inputs. A new management technique is a perfect example of this concept, as it enhances efficiency through better organization and knowledge rather than through new machinery. This type of progress benefits all existing factors of production simultaneously regardless of their age.

170. (A) Big Push Theory - Ragnar Nurkse
The Big Push theory was primarily developed by Paul Rosenstein-Rodan, who argued that large-scale, coordinated investment is necessary to initiate development. Ragnar Nurkse is more famously associated with the balanced growth theory, which suggests simultaneous investment across many sectors to overcome market size limitations. The other pairings provided are correct: A.O. Hirschman is the proponent of unbalanced growth, Harvey Leibenstein developed the critical minimum effort thesis, and W.W. Rostow proposed the five stages of economic growth.

171. (D) A higher steady-state level of per capita output.
In the neoclassical Solow growth model, an increase in the savings rate leads to a higher level of investment and capital accumulation. This causes the economy to grow faster during the transition period as it moves towards a new equilibrium. However, once the new steady state is reached, the long-run growth rate of per capita output returns to the exogenous rate of technological progress. Therefore, a higher savings rate results in a permanently higher level of prosperity and output per worker, but not a higher long-term growth rate.

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172. (B) Health, education, and social welfare of the population.
Social sector development refers to the programs and policies specifically aimed at improving the well-being and capabilities of people within a society. This includes investments in primary healthcare, the expansion of quality education, and the provision of social safety nets and welfare services. By enhancing human capital, social sector development not only improves individual lives but also contributes to long-term economic growth and social stability. This focus distinguishes it from policies that primarily target the financial, industrial, or military sectors.

173. (C) A straight line at a 45-degree angle from the origin.
The Lorenz curve is a graphical representation used to show the distribution of income or wealth within a population. It plots the cumulative percentage of total income against the cumulative percentage of income recipients. In a country where every individual has exactly the same income, the bottom twenty percent of people would receive twenty percent of the

income, and so on. This relationship creates a perfectly straight line at a forty-five-degree angle from the origin, which serves as the benchmark for measuring inequality.

174. (A) Both Statement I and Statement II are true.
The Human Development Index was created as a broader alternative to measuring progress through income alone. It recognizes that true well-being depends on various factors beyond just financial wealth. To capture this complexity, the HDI incorporates indicators for health, such as life expectancy at birth, and access to knowledge, such as mean and expected years of schooling. By combining these social indicators with national income, the index provides a more comprehensive and holistic view of a country's level of human development.

175. (A) The crucial role of government planning and intervention.
The classical theory of economic development, associated with thinkers like Adam Smith and David Ricardo, generally emphasizes the efficiency of the market mechanism and the importance of capital accumulation. These economists believed in the invisible hand of the market and advocated for a limited role for the state, often referred to as laissez-faire. They were primarily concerned with the distribution of income among different social classes and factors of production, rather than the role of government planning and central economic intervention.

176. (B) Richard Nelson and Harvey Leibenstein
The concept of the low-level equilibrium trap is most closely associated with the work of economists Richard Nelson and Harvey Leibenstein. They described a situation common in developing countries where small increases in income lead to rapid population growth that consumes those gains, keeping the economy stuck at a subsistence level. Breaking this trap requires a significant and sustained increase in the rate of investment that exceeds the rate of population growth, allowing per capita income to rise permanently and initiating a self-sustaining growth process.

177. (B) P-3, Q-4, R-2, S-1
The Solow model predicts that long-run per capita growth is determined by external technological progress. Endogenous growth theory argues that sustained expansion is driven by internal factors like human capital and knowledge. David Ricardo theorized that diminishing returns in agriculture would eventually lead to a stationary state with zero growth. Joseph Schumpeter's theory places innovation at the center of development, where the creative entrepreneur breaks the existing circular flow of economic life to initiate dynamic change and structural progress.

178. (A) Inequality, climate change, and sustainable consumption.
The Sustainable Development Goals represent a significantly broader and more comprehensive agenda than the previous Millennium Development Goals. While the MDGs focused primarily on basic human needs like poverty, hunger, and education in developing countries, the SDGs include specific targets related to reducing inequality within and among nations. They also place a strong emphasis on urgent climate action, sustainable consumption and production patterns, and the protection of biodiversity, reflecting a more integrated approach to global economic and environmental challenges.

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179. (C) Human capital formation.
A government policy that focuses on building schools and training teachers is a direct investment in the knowledge and skills of the population. This process is known as human capital formation, as it enhances the productive potential of individuals. Unlike physical capital, such as machinery or infrastructure, human capital is embodied in the people themselves. By improving the quality of education, the government creates a more capable and innovative workforce, which is a fundamental driver of long-term economic development and social progress.

180. (D) Economies of low and middle-income countries.
Development economics is a specialized field of study that focuses on the unique economic, social, and political challenges faced by low and middle-income countries. Its primary objective

is to understand how these nations can achieve sustained growth, reduce poverty, and improve the overall standard of living for their citizens. While it draws on various economic theories, it specifically addresses issues such as structural change, international trade, foreign aid, and the role of institutions in the development process of emerging economies.

181. (D) All of (a), (b), (c), and (d)

The Golden Age in growth theory represents an ideal state of smooth and balanced economic expansion. In this dynamic equilibrium, the warranted rate of growth matches the natural rate of growth, ensuring that full employment is maintained over time. The rate of capital accumulation perfectly equals the growth rate of the labour force, and entrepreneurs' expectations are consistently met, validating their past investment decisions. This concept serves as a benchmark for analyzing the potential stability and sustainability of a growing modern economy.

182. (B) It is overly deterministic and assumes a single linear path.

A major critique of W.W. Rostow's stages of growth theory is its deterministic view of history. Critics argue that the model assumes all countries will follow the same linear path of development based on the historical experience of Western nations. This perspective ignores the diverse cultural, institutional, and political contexts of different societies. Furthermore, it overlooks the possibility that developing countries can skip certain stages or that their development process may be influenced by their unique position within the modern global economic system.

183. (A) Both A and R are true and R is the correct explanation of A.

Endogenous growth theory explains why some countries remain rich while others stay poor, challenging the convergence prediction of neoclassical models. It posits that investments in human capital and research and development create knowledge spillovers that benefit the entire economy. These spillovers generate increasing returns to scale, which means that countries with a head start in technology can continue to grow at high rates. Consequently, initial advantages in knowledge and innovation can lead to persistent and even widening differences in national income between countries.

184. (A) Benefits of growth flow from the wealthy to the poor.

The trickle-down theory of development suggests that policies favoring the wealthy and large corporations will eventually benefit everyone in society. The core idea is that as the rich prosper, they will invest more and consume more, creating jobs and economic opportunities that flow down to the lower income groups. According to this perspective, economic growth should be the primary focus of policy, as its benefits will naturally be distributed throughout the economy without the need for active government redistribution or social welfare programs.

185. (C) The conditions of labor supply and technical progress.

In Joan Robinson's growth model, the possible rate of growth is determined by the maximum potential expansion that the economy can achieve. This rate is fundamentally constrained by the growth of the labour force and the pace of technological progress. It reflects the economy's supply-side capacity to grow over the long run. Achieving this possible rate of growth requires that entrepreneurs are motivated to invest at a corresponding rate, ensuring that the economy moves along a path of balanced and sustainable development.

186. (A) Income alone is an insufficient measure of human well-being.

The difference between a country's Gross National Income per capita and its rank in the Human Development Index highlights a critical insight in development economics. A country may have a high national income but a lower HDI rank if it fails to translate that wealth into social outcomes like better health and education. This disparity demonstrates that income is only one aspect of development and that true well-being depends on expanding human capabilities and providing essential services that improve the overall quality of life.

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187. (D) Industrial growth occurs by drawing cheap labour from agriculture.

The Lewis model, or the dual-sector model, explains how an economy can achieve industrialization by shifting surplus labour from the traditional agricultural sector to the modern industrial sector. In this model, the agricultural sector has unlimited supplies of labour with near-zero marginal productivity. This allows the industrial sector to expand rapidly at a constant wage rate, as it draws on this surplus labour pool. The resulting industrial profits are then reinvested, leading to a self-sustaining process of capital accumulation and overall economic development.

188. (B) Enhancing the capabilities and well-being of the population.

Social sector development is fundamentally concerned with improving the quality of human life by expanding people's capabilities and freedoms. This involves investments in essential services such as healthcare, education, and social protection, which directly enhance the physical and intellectual potential of the population. By focusing on human well-being, this approach to development recognizes that people are the ultimate end of economic progress, and that a healthy, educated population is the most important driver of a sustainable and equitable society.

189. (A) Both Statement I and Statement II are true.

Poverty can be defined and measured in two distinct ways. Absolute poverty refers to a fixed standard of living based on the minimum resources required for physical survival, such as food and shelter. This threshold remains constant in real terms over time. Relative poverty, however, is defined in relation to the average standard of living within a specific society. It measures how far individuals fall behind the median income or consumption level of their peers, highlighting issues of social and economic inequality.

190. (D) Indivisibility of demand.

According to the Big Push theory, developing countries are hindered by the indivisibility of demand, which means that an investment in a single industry may not be profitable due to a lack of customers. A massive, coordinated investment program across many different industries is required to overcome this obstacle. By investing simultaneously, the workers in each new industry create demand for the products of others. This coordinated expansion ensures a broad market where all individual projects can become profitable and sustainable through their mutual support.

191. (A) Exogenous

In the neoclassical Solow growth model, technological progress is treated as an exogenous variable. This means that the rate of improvement in technology is assumed to be determined by factors outside the economic system and is not explained within the model itself. The theory assumes that this technological advancement is available to all countries at a constant rate. Because technology is exogenous, it is the only factor that can sustain long-run per capita growth in this framework, as other factors face diminishing returns.

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192. (B) Lorenz Curve

While several metrics are specifically designed to measure poverty, the Lorenz curve is a broader tool used to analyze the overall distribution of income or wealth within a population. It plots the cumulative percentages of total income against the cumulative percentage of recipients. By showing how much income goes to each segment of society, it provides a visual representation of inequality. While not a direct measure of poverty, it is often used alongside poverty indices to understand the economic structure and the gap between rich and poor.

193. (B) Kaldor and Robinson

Nicholas Kaldor and Joan Robinson are prominent economists associated with the post-Keynesian school of thought. Their growth models are distinguished by their emphasis on the role of income distribution in determining the overall level of savings and investment in an economy. They argued that the propensity to save is different for workers and capitalists, meaning that the way national income is shared between wages and profits is a crucial determinant of the economy's stability and long-run rate of growth.

194. (B) (a), (b), (c), and (e)

industrial profits. Consequently, landlords gain an increasing share of national income, while the profits that drive further investment and growth are gradually diminished until the economy reaches a stationary state.

153. (A) P-4, Q-1, R-2, S-3
Creative destruction is a central concept in Schumpeter's theory, describing how innovation disrupts the economic order. The Harrod-Domar model is famous for its knife-edge equilibrium problem, where growth is inherently unstable. Joan Robinson developed the concept of the Golden Age to represent a state of smooth, steady-state growth with full employment. Paul Rosenstein-Rodan proposed the Big Push theory, advocating for a massive, coordinated investment program to overcome the various obstacles and indivisibilities faced by developing economies.

154. (A) Exogenous technological progress.
In the neoclassical Solow growth model, technological progress is the only factor that can sustain long-run growth in per capita income. While a higher savings rate can increase the level of output per worker, its effect on the growth rate is only temporary as the economy moves toward a new steady state. Without continuous improvements in technology, which are assumed to be exogenous or determined outside the model, diminishing returns to capital would eventually bring per capita growth to a halt.

155. (B) (a) and (b)
Economic development is a normative and multi-dimensional concept that emphasizes qualitative improvements in a society. Unlike economic growth, which is a quantitative measure of output, development involves fundamental structural changes such as industrialization and institutional reforms. It aims to improve the standard of living, health, and education of the entire population. Because it encompasses so many different aspects of human life, it cannot be perfectly captured by simple indicators like the GDP growth rate or Gross National Income per capita.

156. (B) Inducement to invest through linkage effects.
The primary objective of the unbalanced growth strategy is to overcome the shortage of entrepreneurial initiative and capital in developing countries. This approach suggests that by focusing investment on key sectors with strong linkages, the government can strategically create imbalances and disequilibria. These imbalances then serve as a powerful inducement for private entrepreneurs to invest in related industries to take advantage of new opportunities or overcome bottlenecks. This process creates a self-reinforcing chain reaction that drives overall economic development.

157. (C) Statement I is true, but Statement II is false.
In Nicholas Kaldor's growth model, the distribution of income between wages and profits plays a central role in determining the economy's overall savings rate. Kaldor assumed that the propensity to save out of profits is significantly higher than the propensity to save out of wages. This difference is what allows the economy to achieve equilibrium; if investment increases, the share of profits must rise to generate the necessary savings. Therefore, the second statement provided in the question is incorrect according to Kaldor's theory.

158. (D) Health, Education, and Income.
The Human Development Index is a composite measure used by the United Nations to evaluate a country's progress in three essential dimensions. These dimensions are health, which is measured by life expectancy at birth; education, measured by the average and expected years of schooling; and a decent standard of living, measured by gross national income per capita. By combining these three areas, the HDI provides a broader and more representative view of human achievement than national income alone can provide.

159. (A) Malthusian trap.
A Malthusian trap refers to a situation where any gains in national income are quickly offset by a corresponding increase in population growth. This phenomenon keeps per capita income stagnant at a subsistence level, as the additional resources are used to support more people rather than improve living standards. Historically, many agrarian societies were caught in this trap until technological innovations allowed food production and economic output to grow

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201. (C) A universal, integrated, and comprehensive agenda.

The transition from the Millennium Development Goals to the Sustainable Development Goals represents a significant expansion in the global development agenda. While the MDGs were primarily focused on addressing basic human needs in developing countries, the SDGs provide a more universal, integrated, and comprehensive framework. They apply to all nations and address a broader range of issues, including environmental sustainability, social inequality, and responsible consumption. The SDGs recognize that these challenges are interconnected and require collective global action to achieve a truly sustainable and equitable future.

202. (A) Both A and R are true and R is the correct explanation of A.

In the Harrod-Domar growth model, if the actual growth rate exceeds the warranted growth rate, the economy experiences a period of cumulative inflation. This happens because the actual demand for goods is growing faster than the economy's productive capacity. Entrepreneurs find that their existing capital is insufficient to meet this demand, which motivates them to increase their investment even further. This additional investment further stimulates aggregate demand, leading to a self-reinforcing cycle of rising prices and overheating within the economy until another adjustment occurs.

203. (D) Hierarchical social structure and pre-Newtonian science.

The traditional society is the first stage in W.W. Rostow's model of economic development. It is characterized by an economy based primarily on subsistence agriculture with very limited productivity. The society is governed by a hierarchical social structure with political power concentrated in the hands of landowners. Science and technology are based on pre-Newtonian principles, meaning there is a fixed ceiling on the level of output that can be achieved. Fatalism and a strong adherence to tradition often limit the potential for significant economic or social change.

204. (B) Non-rival and non-excludable.

In endogenous growth models, knowledge is often treated as a public good because of its unique characteristics. It is non-rival, meaning that one person's use of a new idea or invention does not prevent others from using it at the same time. It is also often non-excludable, as it is difficult to prevent the benefits of new knowledge from spreading to others in the economy. These positive externalities or spillovers are what allow for increasing returns to scale and sustained long-term economic growth driven by innovation and human capital.

205. (B) P-3, Q-1, R-4, S-2

Different scholars have made significant contributions to our understanding of development and growth. Morris D. Morris developed the Physical Quality of Life Index as a social measure of well-being. Mahbub ul Haq and Amartya Sen were instrumental in creating the Human Development Index. Paul Rosenstein-Rodan proposed the Big Push theory, which advocates for coordinated large-scale investment. Albert O. Hirschman is the primary advocate for the strategy of unbalanced growth, which emphasizes the strategic role of linkages and disequilibria in the development process.

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206. (D) Impracticality due to massive resource requirements.

The primary argument against the balanced growth strategy is that it is often impractical for developing nations. The theory assumes that a country has the immense capital, technical skills, and administrative capacity required to launch and coordinate investments across a wide range of industries simultaneously. In reality, most developing economies are characterized by a severe shortage of these very resources. Therefore, the strategy's demanding requirements make it difficult to implement as a viable path for achieving self-sustaining economic development in many emerging nations.

207. (A) Kaldor's model includes a technical progress function.

A key difference between the growth models developed by Nicholas Kaldor and Joan Robinson lies in their treatment of technology. Kaldor's model introduces a technical progress function, which relates the growth of output

The Solow growth model is a neoclassical framework built on several key assumptions. These include a production function that exhibits diminishing returns to capital and constant returns to scale. The model also treats technological progress as an exogenous factor and predicts conditional convergence, where similar economies eventually reach comparable income levels. Importantly, the Solow model assumes that capital and labor can be substituted for one another, which distinguishes it from the fixed-proportions assumption of the earlier Harrod-Domar growth model.

195. (C) Analysis of the government's budget from a gender perspective.

Gender budgeting is a fiscal strategy that involves analyzing the government's budget to ensure that it addresses the different needs and priorities of men and women. It is not about creating a separate budget for women; rather, it is about mainstreaming a gender perspective into all stages of the budgetary process. By evaluating how revenues and expenditures affect gender equality, this approach helps ensure that public resources are used more effectively to promote fairness and address disparities in health, education, and economic opportunity.

196. (D) First increases, then decreases.

The Kuznets curve is a hypothesis which suggests that in the early stages of economic development, income inequality tends to increase as people move from low-productivity agriculture to higher-productivity industry. However, according to the theory, once a country reaches a certain level of average income, inequality begins to decrease as more people benefit from growth and the government introduces social welfare policies. This relationship is often represented as an inverted U-shaped curve, although its universal validity has been debated by many modern economists.

197. (C) Expanding people's choices and capabilities.

The concept of human development, as promoted by the United Nations Development Programme, emphasizes that people are the real wealth of a nation. This approach argues that the primary objective of development should be to create an environment where people can enjoy long, healthy, and creative lives. It focuses on expanding human capabilities, such as being educated and healthy, and increasing the choices available to individuals. This perspective represents a fundamental shift away from using national income as the sole measure of human progress and well-being.

198. (B) An outcome of the economic system.

A primary difference between the Solow growth model and endogenous growth theory lies in their treatment of technology. In the Solow model, technological progress is an exogenous factor that is determined outside the economy. In contrast, endogenous growth models explain technological change as an internal outcome of the economic system. These theories argue that innovation is driven by intentional investments in human capital and research and development, which are motivated by the pursuit of profits and supported by appropriate institutional and policy frameworks.

199. (D) Demand for inputs that a project creates.

Backward linkages are a crucial concept in Albert Hirschman's theory of development. They refer to the relationship between a new industrial project and the sectors that supply its inputs. When a new factory is established, it creates a demand for raw materials, machinery, and services, which encourages investment and expansion in those supplying industries. By identifying and promoting sectors with strong backward linkages, a government can strategically stimulate a chain reaction of economic activity and industrial growth throughout the entire national economy.

200. (A) (a), (b), and (c)

According to Adam Smith, economic growth is primarily driven by three key factors. First, the division of labour increases specialization and worker productivity. Second, capital accumulation provides the necessary tools and machinery for production. Third, free trade allows countries to specialize in what they produce most efficiently and expands the size of the market. Smith believed that these forces, guided by the invisible hand of the market, would lead to a natural and sustained increase in national wealth without the need for government intervention.

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essential services. The launch of a nationwide immunization campaign is a prime example, as it directly improves public health by preventing disease. Such initiatives lead to a healthier population, which is more productive and has a longer life expectancy. In contrast, macro-economic policies like tariff reductions or industrial projects like privatizing an airline are primarily concerned with the commercial and financial sectors rather than the direct improvement of human social indicators.

215. (B) (b) and (c)

Classical and modern development theories offer diverse perspectives on the growth process. David Ricardo famously predicted that diminishing returns in agriculture would eventually lead the economy into a stationary state. Joseph Schumpeter viewed the innovative entrepreneur as the central figure whose actions disrupt the economic status quo and drive development. However, Karl Marx predicted a falling rate of profit, W.W. Rostow's model assumes a strict linear sequence of stages, and Adam Smith generally advocated for free trade rather than protectionism for infant industries.

216. (A) Increase in capital to equip a growing labor force.

Capital widening is a form of investment where the total capital stock increases at the same rate as the labour force. The primary objective is to ensure that new workers entering the economy have access to the same amount of capital equipment as existing workers. In this situation, the capital-labour ratio remains constant, and there is no change in the level of output per worker. This differs from capital deepening, where the amount of capital per worker actually increases, leading to higher labour productivity.

217. (C) Development is stimulated by creating tensions and disequilibria.

Albert Hirschman's theory of unbalanced growth argues that the most effective way to stimulate development is to strategically create tensions and disequilibria in the economy. By focusing investment on key sectors with strong linkages, the government can create pressures that motivate other industries to expand. This approach recognizes that developing countries have limited resources and entrepreneurial skills. The strategic creation of imbalances serves as a powerful inducement for investment and activity elsewhere, eventually leading to widespread economic progress throughout the entire nation.

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218. (A) Access to property and land rights

The Gender Inequality Index is a composite measure published by the United Nations to evaluate disparities between women and men in three key dimensions. These dimensions are reproductive health, measured by mortality and birth rates; empowerment, measured by political participation and education; and the labour market, measured by workforce participation. While access to property and land rights is a significant issue for gender equality, it is not one of the specific indicators used in the calculation of the GII according to the standard UNDP methodology.

219. (A) Both A and R are true and R is the correct explanation of A.

Robert Solow's growth model is a cornerstone of neoclassical economics because it builds on the principles of market optimization and marginal analysis. Unlike earlier Keynesian-inspired models, it assumes that firms can vary the amount of capital and labor they use in production. This factor substitutability, combined with the assumption of diminishing marginal returns to capital, ensures that the economy moves toward a stable steady state. These features distinguish the model from the rigid and potentially unstable frameworks of the classical era and Harrod-Domar theory.

220. (B) The average amount by which income falls short of the poverty line.

The poverty gap is a measure used to assess the depth and intensity of poverty within a population. It represents the average distance of the poor from the poverty line, with the non-poor having a gap of zero. This measure provides a more detailed picture than the headcount ratio because it accounts for how poor the poor actually are. It is useful for policy makers as it indicates the total amount of resources that would be needed to lift all citizens above the poverty threshold.

221. (C) Rostow's Stages of Growth

state that maximizes consumption per worker. At this level, the marginal product of capital is equal to the sum of the depreciation rate and the rates of population and technological growth. While a higher capital stock increases total output, it also requires more investment to maintain. The Golden Rule identifies the optimal balance where the extra output produced by more capital exactly offsets the extra investment needed, leaving the maximum amount for consumption.

249. (C) There should be simultaneous, coordinated investment across a wide range of industries.
The core idea of balanced growth, as advocated by Ragnar Nurkse, is to overcome the limitations of a small domestic market in developing countries. This strategy suggests that a country should invest in many different industries at once. By coordinating these investments, the workers in each sector become customers for the products of others, creating a mutually reinforcing demand. This coordinated expansion ensures that individual projects become profitable and sustainable, eventually leading the economy toward a path of self-sustaining and broad-based growth.

250. (A) 2, 4, 1, 3
The study of economic growth has progressed through several distinct phases over the centuries. It began with the Classical school, led by Adam Smith and David Ricardo, who focused on capital accumulation and land constraints. In the mid-twentieth century, the Keynesian-inspired Harrod-Domar model emphasized the importance of savings and investment. This was followed by the Neoclassical Solow model in the nineteen-fifties, which introduced factor substitution. Finally, Endogenous growth theories emerged in the nineteen-eighties to explain innovation as an internal economic process.

251. (B) Capital accumulation fueled by savings
Classical economists like Smith and Ricardo identified capital accumulation as the driving force behind economic development. This process involves reinvesting surpluses created by productivity gains, primarily through the division of labour. Savings play a crucial role as they provide the necessary funds for investment, facilitating the expansion of productive capacity and long-term societal prosperity.

252. (A) Ricardo posited that diminishing returns in agriculture would inevitably lead to a stationary state, a more imminent concern than for Smith.
While both emphasized capital accumulation, Ricardo introduced a pessimistic outlook regarding land scarcity. He argued that population growth leads to diminishing returns in agriculture, causing food prices and rents to rise. This effectively squeezes capitalist profits, which are the main source of investment, ultimately forcing the economy into a stationary state much sooner than Smith anticipated.

253. (C) zero growth in capital stock and population.
In Ricardian theory, the stationary state represents the final stage of economic development where further growth ceases. This condition occurs when the profit rate falls so low that there is no incentive for further capital accumulation. Consequently, the expansion of the capital stock stops, and population growth stabilizes as the economy reaches its productive limits.

254. (D) It increases worker productivity, thereby enabling the surplus required for investment.
Adam Smith viewed the division of labour as the primary mechanism for enhancing worker productivity. By specializing in specific tasks, workers become more efficient, leading to an increase in total output. This productivity gain expands the market and creates the necessary surpluses that can be reinvested into the economy to fuel continuous capital accumulation.

255. (C) rising wages and increasing rents driven by diminishing agricultural returns.
Ricardo's analysis focuses on how the distribution of income changes as an economy develops. Due to the law of diminishing returns on limited land, producing more food becomes increasingly expensive. This leads to higher rents for landlords and higher subsistence wages for workers, which directly reduces the profits available to capitalists for reinvestment and growth.

256. (B) The process of creative destruction driven by innovation

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was published in seventeen seventy-six. Roy Harrod's work on dynamic theory appeared in the late nineteen-thirties, laying the groundwork for Keynesian-inspired growth models. Robert Solow introduced his neoclassical growth model in nineteen fifty-six, focusing on factor substitution and technology. Finally, Paul Romer helped pioneer endogenous growth theory in the late nineteen-eighties, which seeks to explain technological progress and innovation as an internal result of economic activity and human capital investment.

229. (C) Growth generated within the system by human capital and innovation.

Endogenous growth is a modern economic theory which suggests that long-term expansion is driven by internal factors rather than external shocks. It emphasizes that intentional investments in human capital, such as education and training, and research and development lead to innovation and technological progress. Unlike neoclassical models that treat technology as an exogenous variable, endogenous growth theory argues that policy and market incentives can permanently influence a nation's growth rate by encouraging the production of new ideas and specialized knowledge.

230. (B) Suggest the need for large-scale, coordinated investment.

The Big Push and balanced growth theories share the common belief that developing countries are hindered by various market failures and indivisibilities. Both theories argue that small, isolated investments are insufficient to lift an economy out of a low-level equilibrium trap. Instead, they advocate for a large-scale, coordinated investment program across a wide range of industries. This approach ensures that various sectors support each other through external economies and created demand, making individual projects profitable and sustainable through the expansion of the entire national market.

231. (B) P-3, Q-4, R-1, S-2

David Ricardo theorized that diminishing returns in agriculture would eventually lead to a stationary state. W.W. Rostow's model identify the take-off as a decisive stage of industrialization. Joseph Schumpeter's theory centers on creative destruction, where innovation disrupts the economic order. Roy Harrod is famous for identifying the knife-edge equilibrium problem, where achieve stable growth is inherently difficult. These concepts represent fundamental ideas from different schools of thought regarding the nature, stages, and potential stability of the economic development and growth process.

232. (A) Both education (attendance) and health (nutrition).

A policy to provide free mid-day meals in schools is an effective social sector intervention that addresses multiple development goals simultaneously. By offering nutritious meals, the program directly improves the physical health and cognitive development of children. At the same time, it serves as a powerful incentive for parents to send their children to school, thereby increasing attendance and improving educational outcomes. This type of initiative enhances human capital and creates significant positive externalities for the long-term well-being and productivity of the entire society.

233. (C) The same dimensions as the HDI but focused on deprivation.

The Human Poverty Index was developed by the United Nations to complement the Human Development Index by focusing specifically on the level of deprivation in a country. While the HDI measures average achievements in health, education, and standard of living, the HPI measures the proportion of the population that lacks these basic dimensions. It reflects the percentage of people who do not reach the minimum thresholds for a long life, knowledge, and a decent standard of living, providing a clearer picture of human suffering.

234. (C) Statement I is true, but Statement II is false.

In the Solow growth model, the steady state is defined as a point where the capital stock per worker remains constant over time. This occurs when the amount of new investment is exactly enough to offset the effects of capital depreciation and the growth of the labour force. However, countries with different savings rates will not reach the same level of income. A higher savings rate will lead to a more capital-intensive steady state and a higher level of per capita output and prosperity for the workers.

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235. (D) Raising consumption propensity and lowering savings.

The demonstration effect refers to the tendency of people in developing countries to imitate the high consumption patterns of advanced nations. This often leads to a rise in the marginal propensity to consume and a corresponding decrease in the domestic savings rate. Since savings are a crucial source of investment for economic growth, this effect can hinder a country's ability to accumulate capital and develop its productive capacity. This phenomenon highlights how cultural and social influences can significantly impact the macroeconomic performance and progress of a nation.

236. (B) Income distribution is a crucial determinant of savings and investment.

The Kaldor and Robinson models are prominent post-Keynesian theories that highlight the central role of income distribution in the growth process. Unlike neoclassical models, they assume that workers and capitalists have different propensities to save. Therefore, the overall savings rate of the economy depends on the share of national income going to wages versus profits. These models explain how shifts in income distribution can help an economy achieve a stable growth path or lead to imbalances, emphasizing that investment is driven by entrepreneurial expectations and profit rates.

237. (C) Per capita income.

The Physical Quality of Life Index was specifically designed to evaluate development outcomes without using income as a direct indicator. It is calculated as the simple average of three component indices: life expectancy at age one, the infant mortality rate, and the basic literacy rate. Each of these social indicators is scaled from zero to one hundred. By excluding per capita income, the PQLI aims to provide a clearer picture of how effectively a society meets the basic human needs of its population, regardless of its level of financial wealth.

238. (A) (a), (b), and (c)

The Big Push theory focuses on the various indivisibilities that trap countries in poverty. The unbalanced growth strategy emphasizes the strategic role of linkages and the deliberate creation of disequilibria to induce investment. W.W. Rostow's model identifies five linear stages that all nations pass through as they modernize. These three theories represent distinct approaches to understanding the obstacles and mechanisms of the development process. Concepts like innovation and class conflict are central to other theories, such as those by Schumpeter and Karl Marx.

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239. (A) Both A and R are true and R is the correct explanation of A.

Educating women is widely recognized as one of the most effective and high-impact strategies for achieving sustainable economic development. Empirical evidence shows that female education is strongly correlated with lower fertility rates, as educated women have greater awareness of family planning. It also leads to a significant reduction in infant mortality and improved nutrition for children. By enhancing human capital and empowerment, female education creates profound positive externalities that benefit families, communities, and the entire national economy across multiple generations and sectors.

240. (B) Only countries with similar structural characteristics will converge toward each other.

The convergence club hypothesis suggests that the prediction of poor countries catching up to rich ones only applies to a specific group of nations. For convergence to occur, countries must share similar structural and institutional characteristics, such as savings rates, educational levels, and political stability. Those that lack these features may remain trapped in a cycle of poverty and fail to close the income gap with advanced economies. This concept explains why we observe catch-up among some nations while global income disparities persist or widen among others.

241. (B) Structural and institutional changes for overall well-being.

While economic growth is primarily concerned with a quantitative increase in the total output of goods and services, economic development is a much broader and more complex process. It includes growth as a component but also encompasses qualitative improvements such as structural shifts in the economy, institutional

reforms, and technological advancements. Development aims to enhance human capabilities and ensure that the benefits of progress lead to overall improvements in the standard of living and the social well-being of the entire population.

242. (A) Secular stagnation and rising unemployment.
In the Harrod-Domar growth model, if the warranted growth rate is less than the natural growth rate, the economy faces a situation of secular stagnation. This occurs because the rate of capital accumulation desired by entrepreneurs is insufficient to provide jobs for the growing labour force and keep pace with technological progress. As a result, the economy fails to reach its full productive potential, leading to persistent unemployment and a chronic lack of aggregate demand. This imbalance highlights the inherent instability of the growth process within this specific framework.

243. (C) The savings rate and the technology parameter 'A'.
In the AK model, which is a fundamental version of endogenous growth theory, output is a linear function of capital. Because the model assumes constant returns to capital, the per capita growth rate is determined entirely by internal factors. Specifically, it depends on the savings rate, which determines the rate of capital accumulation, and the technology parameter A, which reflects the productivity of capital. This implies that policy changes affecting savings or research and development can permanently alter the long-run growth rate of the national economy.

244. (D) A process of 'creative destruction' driven by innovation.
Joseph Schumpeter argued that the essential fact of capitalism is the process of creative destruction. This dynamic evolution is driven by innovative entrepreneurs who introduce new products, processes, and forms of organization. These innovations constantly revolutionize the economic structure from within, destroying old technologies and business models while creating new and more efficient ones. Schumpeter believed that this disruptive process is the primary source of long-term economic growth and that stability in capitalism is merely a temporary phase between periods of innovative upheaval.

245. (C) Increasing budget allocation for primary healthcare centers.
Social sector development focuses on improving human capabilities and well-being through essential services. Increasing the budget for primary healthcare centers is a direct and crucial social policy, as it enhances the physical health and productivity of the population. This type of investment creates positive externalities that benefit the entire society over the long run. In contrast, macro-economic policies like currency devaluation, tax reductions, or large industrial projects like building an airport are primarily concerned with the commercial and financial sectors of the economy.

246. (D) Statement I is false, but Statement II is true.
The Gini coefficient and the Lorenz curve are both essential tools for analyzing economic distribution, but they have distinct purposes. The Lorenz curve provides a visual representation by showing the cumulative share of total income received by different percentages of the population. The Gini coefficient is a single numerical value that summarizes the degree of inequality shown by that curve. Neither of these measures is used to calculate absolute poverty, which instead focuses on the minimum resources needed for physical survival.

247. (D) Creative destruction
The introduction of a new smartphone that renders older models obsolete is a classic example of creative destruction. This concept, developed by Joseph Schumpeter, describes the process where innovation replaces outdated technologies and business models with more advanced ones. While this process leads to the decline of established firms, it is the primary driver of progress and efficiency in a capitalist economy. It demonstrates how entrepreneurial activity continuously revolutionizes the economic structure, leading to long-term growth and shifts in the market through technological advancement.

248. (A) Consumption per worker.
In the neoclassical Solow growth model, the Golden Rule level of capital is the specific steady

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264. (D) the availability of resources and entrepreneurial ability in developing countries.
A fundamental distinction between these strategies is their assumption regarding the availability of resources and entrepreneurial talent. Balanced growth assumes that a country can coordinate massive, multi-sectoral investments simultaneously. Conversely, the unbalanced growth strategy acknowledges that developing nations often lack such extensive resources and capacity, arguing instead for strategic, sequential investments that build on economic linkages.

265. (A) a limited domestic market.
The primary objective of balanced growth is to solve the problem of small domestic markets in underdeveloped countries. Since individual industries might fail due to insufficient demand, a coordinated expansion of many sectors ensures that income generated in one industry provides a market for another. This synergy creates the aggregate demand necessary to make diverse investments profitable.

266. (B) A large-scale, coordinated investment program is necessary to overcome development barriers.
The Big Push theory posits that a stagnant economy requires a critical minimum effort to initiate development. This involves a comprehensive, large-scale investment program designed to overcome structural inertia and indivisibilities. By coordinating investments across different sectors simultaneously, the economy can generate the momentum and external economies necessary to transition from underdevelopment to sustained growth.

267. (B) social overhead capital.
Rosenstein-Rodan highlighted that certain types of infrastructure, known as social overhead capital, exhibit indivisibility in the production function. Essential services like transport, power, and communications require massive, lumpy investments before they can become operational. These projects cannot be built in small, incremental steps, necessitating a large initial push to provide the foundation for other productive activities.

268. (A) an isolated investment project may fail due to a lack of market for its output.
Indivisibility of demand refers to the interdependence of various investment decisions within an economy. An isolated project in a single industry may not be profitable because its workers alone cannot consume its entire output. Therefore, a wide range of industries must be established at the same time to provide mutual markets for their products and ensure overall viability.

269. (C) Balanced growth
The Big Push theory is closely aligned with the balanced growth doctrine. Both emphasize the necessity of simultaneous and coordinated investment across multiple sectors of the economy to create internal demand and realize external economies. This approach rejects gradualism, arguing instead that a massive, synchronized effort is the only way to overcome the structural barriers to development.

270. (D) Because isolated projects cannot generate sufficient external economies and market demand to be viable.
The Big Push theory argues that a bit-by-bit investment approach is ineffective because small, isolated projects fail to generate sufficient external economies. Without a coordinated effort, these individual investments lack the market demand and supporting infrastructure needed to be profitable. Consequently, they cannot provide the widespread momentum required to break the cycle of stagnation and achieve development.

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271. (C) An increase in the rate of economic growth
In the Harrod-Domar model, the growth rate is directly proportional to the national saving rate. If the capital-output ratio remains constant, an increase in savings provides more funds for investment, which expands the economy's productive capacity. This leads to a higher rate of economic growth, as more capital is accumulated to produce a greater level of output.

272. (B) inherent instability of steady growth due to potential divergences between actual, warranted, and natural growth rates.
The knife-edge problem illustrates the inherent instability of the Harrod-Domar growth path.

Joseph Schumpeter's theory centers on the concept of creative destruction, which views capitalism as an inherently dynamic system. This process involves the continuous innovation of new products and production methods that displace and eventually destroy old, obsolete economic structures. This internal revolution is the fundamental driver of economic development, making it a cyclical rather than linear progression.

257. (D) Marx predicted capitalism's collapse due to internal contradictions, while Schumpeter saw it as being perpetually revitalized by innovation.

Karl Marx argued that internal contradictions and the exploitation of labour would inevitably lead to class conflict and the eventual collapse of capitalism. In contrast, Joseph Schumpeter believed that capitalism would be perpetually revitalized from within. He emphasized that entrepreneurial innovation creates new economic structures, ensuring the system evolves through cycles of destruction and creation.

258. (A) innovating entrepreneur.

Schumpeter identified the entrepreneur as the central agent of economic development. Unlike traditional managers, entrepreneurs introduce new combinations of resources, such as innovative products, production techniques, or market expansions. Their activity disrupts existing economic equilibria and initiates the process of creative destruction, which serves as the fundamental engine of growth and transformation within a capitalist economy.

259. (C) a society's economic base determines its social and political superstructure.

Historical materialism posits that the economic base, consisting of the mode of production and relations of production, forms the foundation of society. This base fundamentally determines the social, political, and intellectual superstructure, including laws and ideology. Consequently, changes in economic technology and class relations are the primary drivers of historical evolution and the transformation of societal institutions.

260. (A) characterized by the continuous and disruptive replacement of old economic structures with new ones.

Creative destruction describes economic development as a disruptive and non-linear process. It implies that growth is achieved through the continuous replacement of existing industries and methods with innovative alternatives. This cycle ensures that old economic structures are destroyed to make way for more efficient ones, highlighting that progress in a capitalist system is inherently turbulent.

261. (D) A simultaneous and large-scale investment across many industries is needed to create mutual demand.

The balanced growth theory suggests that underdeveloped economies face limited markets that hinder individual investments. To overcome this, the theory advocates for a massive, synchronized investment across various industries. This simultaneous expansion ensures that workers in different sectors create mutual demand for each other's products, thereby generating a self-sustaining market and promoting overall economic development.

262. (B) strong forward and backward linkages to induce further investment.

Albert O. Hirschman's unbalanced growth strategy suggests prioritizing investments in key sectors that possess significant forward and backward linkages. These strategic investments create deliberate imbalances and bottlenecks in the economy, which then provide powerful incentives for further investment in related industries. This approach is designed to maximize the developmental impact despite limited resources and entrepreneurial capacity.

263. (C) The take-off

W.W. Rostow's model identifies the take-off as the most vital stage of economic growth. During this brief period, an economy undergoes a decisive transition characterized by a significant increase in investment rates and the rapid expansion of new industries. This shift moves the society from a stagnant state onto a path of self-sustained and long-term economic development.

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Nicholas Kaldor's growth model is built on the assumption of differential saving propensities among different income classes. He posited that the propensity to save out of profits is significantly higher than the propensity to save out of wages. This link means that the distribution of income between capitalists and workers directly influences the national saving rate and growth.

282. (B) Embodied progress requires new investment to be implemented, while disembodied progress improves the efficiency of all capital.

Disembodied technical progress is viewed as an external improvement that enhances the productivity of all existing capital and labour simultaneously. In contrast, embodied technical progress is locked into new capital goods. To benefit from such advancements, an economy must undertake new investment to replace old machinery with newer, more efficient equipment that contains the improved technology.

283. (B) the role of income distribution between wages and profits as a determinant of growth.

While the Solow model focuses on factor substitution and steady-state convergence, the post-Keynesian models of Robinson and Kaldor emphasize the role of income distribution. They argue that the way national income is divided between wages and profits is a fundamental determinant of the aggregate saving rate, investment levels, and the overall trajectory of economic growth.

284. (A) an outcome of factors within the economic system, such as R&D.

Endogenous growth theory differs from the Solow model by treating technological progress as a result of activities within the economic system. Instead of being an external shock, progress is driven by deliberate investments in human capital, research and development, and innovation. This approach suggests that policy and economic incentives can permanently influence the long-run growth rate.

285. (C) a relatively constant capital-output ratio over the long run.

Nicholas Kaldor identified several stylized facts based on empirical observations of growing economies. One of the most prominent facts is that the capital-output ratio tends to remain relatively constant over the long run, even as total output and the capital stock grow. This observation served as a foundational premise for developing his theoretical models of economic growth.

286. (D) Infant mortality rate

The Physical Quality of Life Index (PQLI) specifically includes the infant mortality rate as one of its three core indicators, alongside life expectancy at age one and adult literacy. While the Human Development Index (HDI) also focuses on health and education, it uses life expectancy at birth and schooling years, but does not explicitly feature infant mortality as a separate indicator.

287. (C) the HDI includes an income component (GNI per capita), whereas the PQLI deliberately excludes it.

A major conceptual distinction between these two indices is the treatment of income. The PQLI was designed to be a non-income-based measure of well-being, deliberately excluding financial data to focus on social outcomes. Conversely, the HDI includes a standard of living dimension measured by Gross National Income per capita, adjusted for purchasing power parity.

288. (B) Mean years of schooling and expected years of schooling

The Human Development Index (HDI) measures the knowledge dimension using two specific indicators related to education. These are the mean years of schooling, which reflects the average education level of the current adult population, and the expected years of schooling, which estimates the total years of education a child entering the school system can expect to receive.

289. (D) a comprehensive and multidimensional agenda covering social, economic, and environmental targets.

The Sustainable Development Goals (SDGs) represent a vast and interconnected framework adopted by the United Nations. Unlike earlier indices that focused on a few social or economic indicators, the 17 SDGs cover a comprehensive range of objectives, including poverty eradication, economic growth, social equity,

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Since the model assumes fixed proportions of capital and labour, there is no automatic mechanism to ensure that the actual, warranted, and natural growth rates align. Any slight divergence between these rates can lead to cumulative movements toward either chronic unemployment or persistent inflation.

273. (D) a fixed capital-output ratio and fixed factor proportions.
The instability of the Harrod-Domar model stems from the assumption of fixed factor proportions and a constant capital-output ratio. This implies that capital and labour cannot be substituted for one another. Because these proportions are rigid, the economy lacks the flexibility to adjust to changes in labour supply or investment levels, leading to the knife-edge problem.

274. (A) generates income and increases productive capacity simultaneously.
In the Harrod-Domar framework, investment performs two simultaneous functions. First, it generates income through the multiplier effect, which increases aggregate demand. Second, it adds to the stock of capital, thereby increasing the economy's productive capacity. Maintaining steady growth requires that the increase in demand exactly matches the expansion in the economy's ability to produce goods and services.

275. (C) the growth of the labour force and technological progress.
The natural growth rate in the Harrod-Domar model represents the maximum possible rate of growth allowed by the expansion of the labour force and improvements in technology. It is considered an exogenous limit determined by demographic factors and technical progress. For full employment growth to be achieved, the warranted growth rate must coincide with this natural limit.

276. (A) The assumption of variable factor proportions and substitutability between capital and labour
The defining feature of the Solow neoclassical growth model is the assumption of variable factor proportions. Unlike the Harrod-Domar model's rigid requirements, Solow allows for continuous substitution between capital and labour. This flexibility, combined with diminishing returns to capital, enables the economy to automatically adjust and converge toward a stable steady-state equilibrium, avoiding the knife-edge instability.

277. (D) Exogenous technological progress
According to the Solow model, sustained long-run growth in per capita income cannot be achieved through capital accumulation alone due to diminishing returns. While increasing savings can raise the level of output per worker, the growth rate eventually returns to zero in the steady state. Therefore, continuous technological progress is the only factor that can drive perpetual growth.

278. (B) It remains constant.
In the Solow model's steady state, the economy reaches a balance where capital deepening is exactly offset by capital widening. At this equilibrium point, the capital-labour ratio stabilizes, meaning that both output per worker and consumption per worker remain constant over time. Without the introduction of new technological advancements, per capita income growth eventually ceases in this state.

279. (C) the assumption of diminishing returns to capital.
The Solow model's ability to reach a stable equilibrium is primarily driven by the assumption of diminishing returns to capital. As more capital is added to a fixed amount of labour, the additional output produced decreases. This ensures that the economy eventually reaches a point where investment only covers depreciation and population growth, preventing explosive or collapsing growth.

280. (D) It leads to a higher level of steady-state per capita income, but does not affect the long-run growth rate.
An increase in the savings rate in the Solow model leads to a temporary increase in the growth rate as the economy transitions to a new equilibrium. However, in the long run, this only results in a higher level of steady-state per capita income. The long-run growth rate of per capita income remains unchanged and is determined solely by technology.

281. (A) the propensity to save from profits is higher than the propensity to save from wages.

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W.W. Rostow used the powerful analogy of an airplane's journey to describe the various stages of economic development. In this metaphor, a traditional society is like an airplane on the runway, and the preconditions for take-off represent the process of taxiing and gaining speed. The take-off stage is the critical moment when the plane leaves the ground and achieves flight. This is followed by the drive to maturity and finally the age of high mass-consumption, representing a stable and sustained cruising altitude for the modern economy.

222. (D) Are composite indices of development.
The Human Development Index and the Physical Quality of Life Index are both composite measures designed to evaluate progress beyond simple economic growth. They both combine multiple individual indicators into a single numerical score to provide a broader picture of a country's development. While they use different components—the HDI includes income, while the PQLI focuses entirely on social outcomes like infant mortality and literacy—both indices share the common goal of highlighting human well-being as the ultimate objective of economic and social policy.

223. (A) The investment-to-output ratio is higher.
In Nicholas Kaldor's growth model, the distribution of national income between profits and wages is determined by the rate of investment. Kaldor assumed that the propensity to save out of profits is higher than out of wages. Therefore, for a given growth rate, a higher investment-to-output ratio requires a larger amount of savings to maintain equilibrium. This is achieved through an increase in the share of profits in the national income, which provides the necessary funds to support the higher level of investment and sustained economic expansion.

224. (B) (a), (b), and (c)
Understanding the difference between growth and development is essential in modern economics. Economic growth is a quantitative subset of development, focusing on output increases. Development is a broader qualitative and quantitative concept that includes structural and institutional changes. Improvements in social indicators, such as life expectancy, are clear signs of development. However, not all growing economies are necessarily developing, especially if the benefits of growth are concentrated among a few or if there is no improvement in general living standards and human well-being.

225. (B) An increase in the capital per worker ratio.
Capital deepening occurs when the amount of capital in an economy increases at a faster rate than the labour force. This results in an increase in the capital per worker ratio, which allows each worker to produce more output. This process is a primary driver of sustained economic growth and higher living standards, as it directly enhances labour productivity. It differs from capital widening, where investment only keeps pace with population growth, maintaining the same level of capital per person without increasing overall productivity or income.

226. (A) Investment and a high savings rate.
The Harrod-Domar model sent a powerful message to developing countries that the key to achieving rapid economic growth is a high rate of savings and investment. The model suggests that the growth rate is directly proportional to the savings rate; therefore, increasing the share of national income that is saved and invested will lead to a faster expansion of productive capacity. This idea influenced many development plans in the mid-twentieth century, emphasizing the importance of capital accumulation as the primary driver of modernization and progress.

227. (C) Social structures, property rights, and class relationships.
In Marxian analysis, the relations of production refer to the social and legal arrangements that govern the production process. This includes the ownership of the means of production, the structure of property rights, and the relationships between different social classes, such as the bourgeoisie and the proletariat. These relations determine how the surplus value produced by workers is distributed in society. Together with the forces of production, they form the mode of production, which Marx believed was the fundamental driver of historical and social change.

228. (D) 2, 4, 1, 3
Economic thought has evolved through several distinct phases. Adam Smith's Wealth of Nations

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and environmental sustainability. This reflects a holistic approach to global development.

290. (A) To provide a broader, more holistic measure of human well-being beyond just income.
The fundamental purpose of indices like the PQLI and HDI is to provide a more holistic understanding of development that goes beyond simple measures of economic growth like GNI. By incorporating health and education indicators, these measures capture essential aspects of human well-being, ensuring that development is assessed in terms of people's actual lives.

291. (C) a very high level of income inequality.
The Gini coefficient is a numerical measure of income inequality ranging from 0 to 1. A value of 0 represents perfect equality, while a value of 1 signifies perfect inequality. Therefore, a high coefficient like 0.65 indicates a very unequal distribution of income, where a small percentage of the population receives a large share of national income.

292. (A) The Headcount Ratio simply counts the number of poor, while the Poverty Gap Index measures the depth or intensity of poverty.
The Headcount Ratio is a simple measure that identifies the proportion of the population living below the poverty line. In contrast, the Poverty Gap Index provides more information by measuring the depth or intensity of poverty. It calculates the average shortfall of the poor from the poverty line, showing how far individuals are from escaping poverty.

293. (D) A state of perfect equality
On a Lorenz curve diagram, the cumulative percentage of the population is plotted against the cumulative percentage of income. A perfectly straight 45-degree diagonal line represents a state of perfect equality, where every individual or household receives an equal share of the total income. The distance between the actual curve and this line indicates the level of inequality.

294. (B) their income is significantly lower than the median income of their society.
Relative poverty is defined in relation to the economic standards of the specific society in which an individual lives. It does not necessarily mean a lack of basic survival needs but rather signifies that a person's income is significantly lower than the average or median income of their community, resulting in exclusion from standard living patterns.

295. (C) cumulative percentage of the population and the cumulative percentage of income.
The Lorenz curve is a graphical tool used to represent the distribution of income or wealth within a population. It plots the cumulative percentage of total income received on the vertical axis against the cumulative percentage of the population on the horizontal axis. This visualization allows for an easy comparison between actual income distribution and perfect equality.

296. (D) Because they constitute investments in human capital, which enhances productivity and innovation.
Investments in health and education are vital because they build human capital, which consists of the skills, knowledge, and physical well-being of the population. Higher human capital levels lead to increased labour productivity, better health outcomes, and a greater capacity for innovation. These factors are essential for driving long-term economic growth and moving toward higher-value activities.

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297. (A) stock of knowledge, skills, and health embodied in the population.
Human capital refers to the intangible assets embodied in individuals, including their education, vocational skills, expertise, and health status. These attributes enhance a person's ability to perform labour and generate economic value. Unlike physical capital, human capital is accumulated through investments in schooling, training, and healthcare, becoming a critical driver of modern economic development.

298. (B) By limiting the potential contribution of a significant portion of the population to the economy.
Gender inequality acts as a significant barrier to development by restricting the access of women to education, healthcare, and economic opportunities. This exclusion prevents a large portion of the population from contributing their productivity to the economy. Reducing

these disparities empowers women, leading to improved development outcomes in health, education, and overall economic growth.

299. (B) adapt to new technologies and perform higher-skilled tasks.

An educated populace provides a crucial economic benefit by being more adaptable to technological changes. Individuals with better education and skills are better equipped to learn new production methods, innovate, and perform high-skilled tasks. This flexibility is essential for an economy to transition from primary production to more advanced industrial and service sectors, enhancing overall competitiveness.

300. (A) Social sector development and economic growth are mutually reinforcing.

Social sector development and economic growth are mutually reinforcing processes. While economic growth provides the financial resources needed to invest in health and education systems, improvements in these social sectors create a more productive and innovative workforce that further drives growth. This virtuous cycle demonstrates that social well-being and economic progress are deeply interconnected.

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CHAPTER 09

Environmental Economics and Demography

1. Which of the following characteristics are essential for a good to be classified as a pure public good?
(A) Rivalry in consumption and excludability
(B) Non-rivalry in consumption and non-excludability
(C) Rivalry in consumption and non-excludability
(D) Non-rivalry in consumption and excludability

2. Read the following statements regarding market failure in the context of the environment and choose the correct option.
Statement I : Market failure occurs when the price mechanism fails to account for all the costs and benefits necessary to provide and consume a good.
Statement II : The existence of positive externalities leads to overproduction of a good or service.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

3. Which of the following is an example of a stated preference method for valuing environmental goods?
(A) Hedonic Pricing Method
(B) Travel Cost Method
(C) Contingent Valuation Method
(D) Production Function Method

4. The Malthusian theory of population primarily focuses on the relationship between population growth and which of the following?
(A) Technological advancement
(B) Social mobility
(C) Political institutions
(D) Food supply

5. What does the term 'Morbidity' in demography refer to?
(A) The study of the causes of death in a population
(B) The rate of migration out of a population
(C) The incidence of disease and illness in a population
(D) The average life expectancy of a population

6. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The Coase Theorem suggests that, under certain conditions, private bargaining can solve the problem of externalities.
Reason (R) : The theorem assumes that transaction costs are zero or negligible and property rights are well-defined.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(A) A is true but R is false.
(D) A is false but R is true.

7. A factory emits pollutants into a river, harming the local fishing industry. This is a classic example of:
(A) A positive production externality
(B) A positive consumption externality
(C) A negative consumption externality
(D) A negative production externality

8. Which of the following statements about Cost-Benefit Analysis (CBA) is incorrect?
(A) It exclusively considers private costs and benefits, ignoring social impacts.
(B) It is a systematic process for calculating and comparing benefits and costs of a project.
(C) It helps in making investment decisions by quantifying impacts in monetary terms.
(D) Future costs and benefits in a CBA are

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typically discounted to their present values.

9. Consider the following statements about environmental goods:
1. They often exhibit the characteristics of public goods.
2. Market mechanisms are always efficient in allocating them.
3. Their valuation is straightforward and uses standard market prices.
4. Clean air is a common example of an environmental public good.

Which of the above statements are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 4
(D) 3 and 4 only

10. The concept of 'Demographic Dividend' is best described as:
(A) Economic growth from population age structure changes.
(B) The total current population size of a specific country.
(C) Direct government payments to families for having children.
(D) A sharp and sudden increase in a country's mortality rate.

11. A prolonged drought in a rural area causing farmers to move to cities in search of work is an example of what kind of migration cause?
(A) A social pull factor
(B) An economic pull factor
(C) A political push factor
(D) An environmental push factor

12. In a life table, what does the notation 'qx' represent?
(A) The number of individuals surviving to age x.
(B) The probability of an individual of age x dying before reaching age x+1.
(C) The total number of years lived by the cohort beyond age x.
(D) The number of deaths between age x and x+1.

13. According to the Theory of Demographic Transition, which stage is characterized by high birth rates and rapidly falling death rates, leading to a population explosion?
(A) Stage 1
(B) Stage 3
(C) Stage 2
(D) Stage 4

14. Identify the correct pair from the following demographic measures.
(A) Morbidity - Number of deaths per 1,000 people
(B) Fertility - Prevalence of chronic diseases
(C) Migration - Total Fertility Rate
(D) Mortality - Crude Death Rate

15. Match the items in List I with List II regarding methods of environmental valuation.
List I: (Valuation Method)
P. Hedonic Pricing
Q. Contingent Valuation
R. Travel Cost Method
S. Production Function Method
List II: (Basis of Valuation)
1. Analyzing expenditures to visit a recreational site
2. Using property values to infer the value of environmental quality
3. Estimating the contribution of an environmental resource to commercial output
4. Directly asking people their willingness to pay for an environmental good

Codes:
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-4, Q-3, R-2, S-1

16. The Kaldor-Hicks compensation criterion suggests that a change is an improvement if:
(A) At least one person is made better off while no one is made worse off.
(B) Gainers can potentially compensate losers and still remain better off.
(C) Total social benefits are exactly equal to the total social monetary costs.
(D) Losers from a change can bribe the gainers to stop the proposed project.

17. Read the following statements about the Coase Theorem and choose the correct option.

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Statement I : The theorem states that the initial allocation of property rights determines who bears the cost of an externality.
Statement II : The theorem's conclusion holds true even in the presence of high transaction costs.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

18. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The Net Reproduction Rate (NRR) is considered a more realistic measure of generational replacement than the Gross Reproduction Rate (GRR).
Reason (R) : NRR accounts for the mortality of females from birth to the end of their reproductive years, whereas GRR does not.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

19. Which of the following is NOT a characteristic of the first stage of the Demographic Transition Theory?
(A) High birth rate
(B) High death rate
(C) High life expectancy
(D) Low population growth

20. A lighthouse is often cited as a classic example of a public good because:
(A) The construction and maintenance costs are exceptionally high for the provider.
(B) Only a single ship can utilize its light at any given moment in time.
(C) The service is provided by the government through national tax revenues.
(D) Consumption is non-excludable and non-rivalrous for all passing vessels.

21. Consider the following statements regarding the environment and market economics:
1. Environmental resources are often under-priced in markets.
2. The 'Tragedy of the Commons' is a result of well-defined property rights.
3. Positive externalities from environmental protection are a form of market failure.
4. The Coase theorem is universally applicable in all environmental disputes.
5. Cost-Benefit Analysis ignores the time value of money.

Which combination of the above statements is correct?
(A) 1 and 3 only
(B) 2, 4, and 5 only
(C) 1, 3, and 4 only
(D) 2 and 5 only

22. The free-rider problem is most likely to arise in the case of:
(A) A private good
(B) A public good
(C) A club good
(D) A common-pool resource

23. What does Total Fertility Rate (TFR) measure?
(A) Total number of live births recorded in a country during a single year.
(B) Number of live births per 1,000 women within the reproductive age group.
(C) Total percentage of women who have given birth to at least one child.
(D) Average number of children a woman has during her reproductive years.

24. Arrange the following stages of Demographic Transition in the correct chronological order:
1. Low birth rate, low death rate
2. High birth rate, high death rate
3. Declining birth rate, low death rate
4. High birth rate, declining death rate

Select the correct code:
(A) 2, 4, 3, 1
(B) 1, 2, 3, 4
(C) 2, 3, 4, 1
(D) 4, 2, 1, 3

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25. The problem of assigning a monetary value to a human life is a significant challenge in which of the following?
(A) Coase Theorem application
(B) Life Table construction
(C) Cost-Benefit Analysis
(D) Malthusian theory verification

26. The concept of 'Optimum Theory of Population' is primarily concerned with the relationship between population size and:
(A) Per capita income
(B) Land availability
(C) Religious beliefs
(D) Political stability

27. Which of the following statements about a life table is correct?
(A) It traces the mortality experience of a single individual over their lifetime.
(B) It is constructed based on the assumption that mortality rates will increase in the future.
(C) It primarily measures fertility and migration patterns.
(D) It is a statistical table that shows the mortality experience of a hypothetical cohort.

28. The difference between the Crude Birth Rate (CBR) and the Crude Death Rate (CDR) is called the:
(A) Total fertility rate
(B) Rate of natural increase
(C) Net migration rate
(D) Infant mortality rate

29. The Hedonic Pricing Method would be most suitable for valuing which of the following?
(A) The existence value of a rare species.
(B) The recreational value of a national park.
(C) The impact of air quality on residential property prices.
(D) The willingness to pay for a new environmental regulation.

30. Match the demographic terms in List I with their associated indicators in List II.
List I: (Demographic Term)
P. Fertility
Q. Mortality
R. Morbidity
S. Migration
List II: (Associated Indicator)
1. Infant Mortality Rate
2. Prevalence Rate
3. Total Fertility Rate
4. Push and Pull Factors
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-2, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-2, S-3

31. A key assumption of the Coase Theorem for achieving an efficient outcome is:
(A) Property rights must be clearly defined and enforceable.
(B) The presence of a strong government regulator.
(C) The externality must be positive.
(D) The number of parties involved must be large.

32. Read the following statements and choose the correct option.
Statement I : Non-rivalry means that one person's consumption of a good does not reduce its availability for others.
Statement II : Non-excludability means it is prohibitively expensive to prevent non-payers from consuming a good.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

33. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : A period of demographic dividend can offer a window of opportunity for rapid economic growth.
Reason (R) : This period is characterized by a larger proportion of the population in the working-age group and a lower dependency ratio.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

34. A person choosing to move from a politically unstable country to a stable one is an example of migration influenced by:
(A) A political push factor
(B) An economic pull factor
(C) A social push factor
(D) An environmental pull factor

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35. The Travel Cost Method is a revealed preference technique used to estimate the value of:
(A) Industrial pollution reduction
(B) Biodiversity preservation
(C) Recreational sites like parks and beaches
(D) Clean air in urban areas

36. Consider the following statements related to population measures:
1. Gross Reproduction Rate (GRR) considers the mortality of female children.
2. Net Reproduction Rate (NRR) of 1 indicates that the population is replacing itself exactly.
3. Total Fertility Rate (TFR) is expressed as births per 1,000 population.
4. Crude Birth Rate (CBR) is considered a more refined measure of fertility than TFR.

Which of the above statement(s) is/are correct?
(A) 1 and 3 only
(B) 2 only
(C) 2 and 4 only
(D) 1, 2 and 3

37. The 'Tragedy of the Commons' describes a situation where:
(A) A public good is under-provided due to the presence of free-riders.
(B) The government over-regulates the usage of private property rights.
(C) Shared, unregulated resources are depleted by individual self-interest.
(D) A single private firm monopolizes the supply of a crucial resource.

38. Which compensation criterion states that a policy change is desirable only if it makes at least one person better off without making anyone worse off?
(A) Kaldor Criterion
(B) Pareto Criterion
(C) Hicks Criterion
(D) Scitovsky Criterion

39. The value e_x (or e°_x) in a life table represents:
(A) Number of years lived by the cohort between two specific age intervals.
(B) Total number of individuals alive at the start of a specific age group.
(C) Mathematical probability of an individual surviving from birth to age x.
(D) Average number of additional years a person of age x is expected to live.

40. In the Malthusian population model, 'preventive checks' refer to:
(A) Human actions like late marriage and celibacy that lower the birth rate.
(B) Natural events like famines and diseases that increase the death rate.
(C) Active government policies designed to improve total food production.
(D) Rapid technological innovations in the field of industrial agriculture.

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41. Which of the following is an incorrect pair?
(A) Stated Preference - Contingent Valuation Method
(B) Revealed Preference - Hedonic Pricing Method
(C) Stated Preference - Production Function Method
(D) Revealed Preference - Travel Cost Method

42. In the context of environmental economics, market failure occurs because environmental goods often lack:
(A) Well-defined property rights and market prices
(B) Utility and demand
(C) Scarcity and value
(D) Physical substance and form

43. An age structure pyramid that is narrow at the base and wider at the top is characteristic of a country with:
(A) A rapidly growing population
(B) A stable population
(C) A very young population
(D) An aging and shrinking population

44. Which of the following is NOT a direct cause of market failure?
(A) Externalities
(B) Perfect competition
(C) Public goods
(D) Asymmetric information

45. Consider the following statements regarding population theories:
1. Malthus argued that population grows arithmetically while food supply grows geometrically.

63. The Pareto Improvement criterion for evaluating a project is considered very strict because:
(A) It requires that no single individual is made worse off by the project.
(B) It requires the project's benefits to be at least double its costs.
(C) It only applies to environmental projects.
(D) It ignores the monetary value of costs and benefits.

64. What is the fundamental difference between the Gross Reproduction Rate (GRR) and the Net Reproduction Rate (NRR)?
(A) GRR considers only male births, while NRR considers both.
(B) NRR accounts for mortality among females during their childbearing years, while GRR does not.
(C) GRR is based on current fertility rates, while NRR is based on historical rates.
(D) NRR includes the impact of migration, while GRR does not.

65. A beekeeper's bees pollinate a nearby apple orchard, leading to a larger apple crop. This is an example of:
(A) A negative consumption externality
(B) A positive production externality
(C) A negative production externality
(D) A public good

66. Match the population stages in List I with their characteristics in List II.
List I: (Concept)
P. Malthusian Theory
Q. Optimum Theory
R. Demographic Transition
S. Demographic Dividend
List II: (Core Idea)
1. Stages of population change over time
2. Population growth outpaces food supply
3. Economic benefit from a large working-age population
4. Population size that maximizes per capita income
Codes:
(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

67. In the third stage of the Demographic Transition Theory, population growth begins to slow down because:
(A) The death rate starts to increase again.
(B) Migration out of the country increases dramatically.
(C) The birth rate begins to decline significantly.
(D) The birth rate and death rate are both at very low levels.

68. Read the following statements about the Coase Theorem and choose the correct option.
Statement I : The Coase theorem is most effective when the number of parties involved in an externality is small.
Statement II : The Coase theorem suggests government intervention is always necessary to correct externalities.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

69. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : Fisheries and forests are often categorized as common-pool resources.
Reason (R) : They are rival in consumption (one person's use diminishes another's) but are often non-excludable (it is difficult to prevent people from accessing them).
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

70. The Production Function Method of environmental valuation would be most appropriate for which scenario?
(A) Estimating people's willingness to pay to preserve a national park.
(B) Assessing how water quality affects the productivity and costs of a manufacturing firm.
(C) Valuing the aesthetic beauty of a landscape.
(D) Calculating the value of noise reduction on house prices.

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optimum level, an increase in population will lead to:
(A) A decrease in per capita income.
(B) No change in per capita income.
(C) An increase in per capita income.
(D) A Malthusian catastrophe.

54. Arrange the following environmental valuation methods based on their primary approach, from Revealed Preference to Stated Preference.
1. Contingent Valuation
2. Hedonic Pricing
3. Travel Cost Method
4. Choice Experiment

Select the correct sequence:
(A) 2, 3, 1, 4
(B) 1, 4, 2, 3
(C) 2, 1, 3, 4
(D) 4, 3, 1, 2

55. In the context of a life table, 'lx' represents:
(A) The number of deaths in the interval (x, x+1).
(B) The total years lived by the population from age x onwards.
(C) The probability of dying in the interval (x, x+1).
(D) The number of persons surviving to the exact age x out of the original cohort.

56. Internal migration refers to the movement of people:
(A) Within the same country.
(B) Between different countries.
(C) For tourism and leisure purposes only.
(D) Due to forced displacement by war.

57. The Contingent Valuation Method (CVM) is often criticized for:
(A) Its inability to measure non-use values.
(B) Its reliance on actual market behavior.
(C) The potential for hypothetical bias in survey responses.
(D) The high cost of analyzing property market data.

58. Which of the following scenarios best illustrates the concept of market failure due to a public good?
(A) Private markets underprovide national defense due to non-excludability.
(B) A single company controlling the entire supply of a patented medicine.
(C) A consumer buying a product without full information about its flaws.
(D) A firm dumping waste into a river, imposing social costs on the public.

59. Which of the following demographic indicators is calculated for a specific cause of death?
(A) Crude Death Rate
(B) Age-Specific Death Rate
(C) Infant Mortality Rate
(D) Cause-Specific Death Rate

60. Consider the following statements about migration:
1. 'Push' factors are conditions that drive people to leave their homes.
2. 'Pull' factors are conditions that attract people to a new location.
3. Better job opportunities in a city is a 'push' factor.
4. Political persecution in a home country is a 'pull' factor.

Which of the statement(s) above are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2, and 3
(D) 1, 2, and 4

61. If a country has a Net Reproduction Rate (NRR) greater than 1, it implies that:
(A) The total size of the population is gradually and steadily shrinking.
(B) Current fertility levels have fallen below the replacement threshold.
(C) Each generation of mothers more than replaces itself with daughters.
(D) The Crude Death Rate has become higher than the Crude Birth Rate.

62. The 'dependency ratio' is a measure that compares the number of individuals in the 'dependent' ages (typically under 15 and over 64) to the:
(A) Total population.
(B) Number of females in the reproductive age group.
(C) Number of migrants entering the country.
(D) Number of individuals in the working-age population (15-64).

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2. The Optimum Theory of Population posits that there is a population size that maximizes per capita income.
3. The Demographic Transition Theory describes population changes over time in stages.
4. The final stage of demographic transition is marked by high birth and death rates.
5. Preventive checks in Malthusian theory include famine and disease.

Which of the above statements are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 3, and 5 only
(D) 2, 4, and 5 only

46. When the consumption of a good is non-rival but excludable, it is called a:
(A) Private good
(B) Public good
(C) Common-pool resource
(D) Club good

47. In Cost-Benefit Analysis, the process of converting future values of costs and benefits into their present-day equivalents is known as:
(A) Discounting
(B) Compounding
(C) Amortizing
(D) Valuating

48. Match the population stages in List I with their characteristics in List II.
List I: (Population Stage)
P. Stage 1 (High Stationary)
Q. Stage 2 (Early Expanding)
R. Stage 3 (Late Expanding)
S. Stage 4 (Low Stationary)
List II: (Characteristic)
1. Birth rate declines, death rate is low
2. Low birth rate, low death rate
3. High birth rate, high death rate
4. High birth rate, declining death rate

Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

49. What is the primary limitation of the Coase Theorem in real-world applications to environmental problems?
(A) The difficulty in assigning monetary values to externalities.
(B) The presence of significant transaction costs.
(C) The assumption that individuals are irrational.
(D) The theorem only applies to positive externalities.

50. Read the following statements and choose the correct option.
Statement I : The Infant Mortality Rate (IMR) is the number of deaths of infants under one year of age per 1,000 live births.
Statement II : A high IMR is often an indicator of poor healthcare and socioeconomic conditions.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

51. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The valuation of environmental goods is complex and often relies on indirect methods.
Reason (R) : Environmental goods, like clean air, are not traded in organized markets and thus have no explicit market price.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

52. The measure that calculates the number of new cases of a disease during a specific period is called:
(A) Prevalence
(B) Morbidity rate
(C) Case fatality rate
(D) Incidence

53. A key feature of the Optimum Theory of Population is that if the population is below the

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71. Which of the following is NOT a 'positive check' on population in the Malthusian framework?
(A) War
(B) Famine
(C) Disease
(D) Moral restraint

72. Consider the following statements about Cost-Benefit Analysis (CBA):
1. CBA is a tool used to evaluate the desirability of a given policy or project.
2. It requires all impacts, positive and negative, to be expressed in monetary units.
3. The Net Present Value (NPV) is a key metric used in CBA.
4. The Kaldor-Hicks criterion is a form of compensation test used in conjunction with CBA.
5. CBA gives equal weight to benefits accruing to different income groups.

Which of the above statements are correct?
(A) 1, 2 and 3 only
(B) 1, 2, 3 and 4 only
(C) 3, 4 and 5 only
(D) All of the above

73. The prevalence of a disease refers to:
(A) The number of new cases of a disease in a given time period.
(B) The death rate associated with a particular disease.
(C) The total number of existing cases of a disease at a specific point in time.
(D) The probability of contracting a disease.

74. An age structure pyramid with a very wide base indicates:
(A) A high birth rate and a young population
(B) A high proportion of older people
(C) A low dependency ratio
(D) An aging population

75. The primary purpose of constructing a life table is to:
(A) Measure the fertility patterns of a population.
(B) Analyze the migration trends in a country.
(C) Calculate the demographic dividend.
(D) Summarize the mortality experience and life expectancy of a population.

76. The phenomenon where one person's consumption of an environmental good (like a scenic view) does not prevent others from also consuming it is called:
(A) Non-excludability
(B) Non-rivalry
(C) Non-satiation
(D) Non-existence

77. Which of the following is an example of international migration?
(A) A family moving from Mumbai to Delhi.
(B) A student moving from a rural village to a state capital for university.
(C) A worker from the Philippines moving to the UAE for a job.
(D) A seasonal farmworker moving between different states for harvest.

78. The willingness to accept (WTA) compensation for an environmental loss is a key concept in which valuation method?
(A) Hedonic Pricing Method
(B) Travel Cost Method
(C) Production Function Method
(D) Contingent Valuation Method

79. The Optimum Theory of Population was primarily developed by:
(A) Edwin Cannan
(B) Thomas Malthus
(C) Adam Smith
(D) John Maynard Keynes

80. A negative externality causes a divergence between:
(A) Private benefit and social benefit
(B) Private cost and social cost
(C) Demand and supply
(D) Total revenue and total cost

81. Which of the following is a key requirement to realize the demographic dividend?
(A) A rapidly increasing birth rate.
(B) A large-scale emigration of the working-age population.
(C) Significant investment in education and health for the young workforce.
(D) A high dependency ratio.

82. In a life table, 'dx' is defined as:

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161. Which of the following is NOT a type of migration?
(A) Internal
(B) International
(C) Morbidity
(D) Rural-urban

162. The Kaldor-Hicks efficiency criterion is met if:
(A) The winners could compensate the winners and still be better off.
(B) No one is made worse off.
(C) The losers could bribe the winners not to make the change.
(D) The total benefits equal the total costs exactly.

163. The existence of a demographic dividend is contingent upon:
(A) A rising dependency ratio.
(B) The economy's capacity to productively employ the larger workforce.
(C) A sustained increase in the birth rate.
(D) The permanent aging of the population.

164. The Tragedy of the Commons is a specific type of market failure related to goods that are:
(A) Non-rival and excludable
(B) Rival and non-excludable
(C) Non-rival and non-excludable
(D) Rival and excludable

165. Consider the following statements regarding population theories:
1. The Optimum Theory of Population was proposed by Edwin Cannan.
2. The Demographic Transition Theory suggests that all countries pass through the same stages of population development.
3. Malthus believed in 'preventive checks' and 'positive checks' on population.
4. According to the Optimum Theory, a country can be under-populated.

Which of the following statement combinations are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2, and 3
(D) 2, 3, and 4

166. In a life table, the value of l_0 (the number of survivors at age 0) is known as the:
(A) Radix
(B) Life expectancy
(C) Pivot
(D) Cohort size

167. Which of the following is the best example of a negative consumption externality?
(A) A person's loud music disturbing neighbors.
(B) A factory polluting a river.
(C) A beekeeper's bees pollinating an orchard.
(D) A person getting a vaccination, which helps protect others.

168. Match the demographic indicators in List I with their units of measurement in List II.
List I: (Demographic Indicator)
P. CBR (Crude Birth Rate)
Q. TFR (Total Fertility Rate)
R. IMR (Infant Mortality Rate)
S. CDR (Crude Death Rate)
List II: (Unit of Measurement)
1. Deaths of infants < 1 year per 1,000 live births
2. Live births per 1,000 population per year
3. Deaths per 1,000 population per year
4. Average number of children per woman
Codes:
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-1, S-3
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

169. The main challenge in applying the Coase Theorem to resolve environmental disputes is the existence of:
(A) Well-defined property rights
(B) Transaction costs
(C) Rational actors
(D) Small numbers of involved parties

170. Read the following statements and choose the correct option.
Statement I : Age structure directly influences a country's social and economic characteristics, such as the demand for schools and healthcare.
Statement II : A country with a youthful population and one with an aging population face identical economic challenges.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.

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(D) Total number of years a specific person has lived since their birth.

92. The phenomenon where a beautiful public park increases the value of adjacent houses is an effect captured by which valuation method?
(A) Contingent Valuation
(B) Travel Cost Method
(C) Hedonic Pricing
(D) Cost-Benefit Analysis

93. The Total Fertility Rate (TFR) required for a population to replace itself, known as replacement-level fertility, is approximately:
(A) 1.0
(B) 2.1
(C) 3.5
(D) 4.0

94. The 'compensation criteria' of Kaldor and Hicks are attempts to overcome the strictness of the:
(A) Coase Theorem
(B) Pareto Criterion
(C) Malthusian Principle
(D) Optimum Population Theory

95. In the context of the Demographic Transition Theory, which of the following is a primary reason for the decline in death rates in Stage 2?
(A) A decline in the birth rate.
(B) Improvements in sanitation, public health, and food supply.
(C) A government policy of population control.
(D) Mass emigration to other countries.

96. Match the life table columns in List I with their descriptions in List II.
List I: (Life Table Column)
P. dx
Q. qx
R. lx
S. ex
List II: (Description)
1. Probability of dying between age x and x+1
2. Number of survivors at exact age x
3. Expectation of life at age x
4. Number of deaths between age x and x+1
Codes:
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-4, S-3

97. The concept that a country is 'overpopulated' if its population size is larger than the level that maximizes per capita income is central to which theory?
(A) Theory of Demographic Transition
(B) Malthusian Theory of Population
(C) Optimum Theory of Population
(D) Theory of Population Momentum

98. Read the following statements about migration and choose the correct option.
Statement I : Rural-to-urban migration is a common form of internal migration in developing countries.
Statement II : The consequences of migration are always positive for both the source and destination regions.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

99. Which of the following is NOT a typical reason for market failure concerning environmental goods?
(A) The existence of externalities.
(B) The public good nature of environmental resources.
(C) The presence of high levels of competition.
(D) Poorly defined or non-existent property rights.

100. A high youth dependency ratio in a country's age structure implies that:
(A) A large proportion of the population is elderly.
(B) There is a large number of children relative to the working-age population.
(C) The country is experiencing a demographic dividend.
(D) The birth rate is very low.

101. Consider the following items:
1. National Parks
2. City Police Force
3. A slice of pizza
4. Lighthouse services
5. Uncongested toll roads
Which of these are examples of goods that are

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(B) Mortality of a group born in the same year until all have died.
(C) The fertility patterns of women born within the same calendar year.
(D) General migration patterns observed across a specific generation.

141. The shift from high birth and death rates to low birth and death rates over time in a country is described by the:
(A) Malthusian Theory
(B) Theory of Demographic Transition
(C) Optimum Theory of Population
(D) Life Table Analysis

142. A country with an age structure showing a large proportion of elderly people and a smaller proportion of young people is said to have a high:
(A) Youth dependency ratio
(B) Old-age dependency ratio
(C) Demographic dividend
(D) Total fertility rate

143. Which of the following is NOT an essential component of Cost-Benefit Analysis?
(A) Identification of all costs and benefits.
(B) Monetization of costs and benefits.
(C) Discounting of future costs and benefits.
(D) Ensuring equitable distribution of benefits.

144. Read the following statements and choose the correct option.
Statement I : A pure public good is characterized by rivalry and excludability.
Statement II : Clean air is often cited as an example of a pure public good.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false, but Statement II is true.
(D) Statement I is true, but Statement II is false.

145. The incidence and prevalence are two key measures of:
(A) Mortality
(B) Fertility
(C) Morbidity
(D) Migration

146. Which of the following situations describes the Tragedy of the Commons?
(A) A private company over-harvests its own forest for short-term profit.
(B) Shared grazing land is depleted by herders acting in self-interest.
(C) A national government protects a rare species in a wildlife sanctuary.
(D) A consumer pays for a subscription to a movie streaming service.

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147. A Net Reproduction Rate (NRR) of less than 1 suggests that, in the long run, the population is likely to:
(A) Grow exponentially
(B) Remain stable
(C) Decline
(D) Experience a baby boom

148. The Contingent Valuation Method asks people about their willingness to pay (WTP) or willingness to accept (WTA) to estimate:
(A) Use values only
(B) Non-use values only
(C) Both use and non-use values
(D) Production-related values only

149. The difference between immigration and emigration is:
(A) Immigration is movement into a country, while emigration is movement out of a country.
(B) Immigration is movement within a country, while emigration is movement between countries.
(C) Immigration is forced, while emigration is voluntary.
(D) Immigration is for economic reasons, while emigration is for political reasons.

150. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The opportunity for a demographic dividend arises from a decline in fertility rates.
Reason (R) : A decline in fertility rates leads, after a time lag, to a smaller youth dependency burden and a larger proportion of the population in the productive working ages.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.

112. The final stage of the Demographic Transition is characterized by:
(A) High birth rate and high death rate
(B) Low birth rate and low death rate
(C) High birth rate and low death rate
(D) Low birth rate and high death rate

113. Consider the following statements related to environmental valuation:
1. Stated preference methods rely on hypothetical scenarios.
2. Revealed preference methods use data from actual behavior.
3. Hedonic pricing is a stated preference method.
4. Contingent valuation is a revealed preference method.

Which of the above statement(s) are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3
(D) 2, 3 and 4

114. The inability to prevent someone from enjoying the benefits of a clean river, even if they don't contribute to the cleanup costs, is an example of:
(A) Non-rivalry
(B) Externality
(C) Non-excludability
(D) Market power

115. Arrange the following thinkers in the chronological order of their main contribution to population theory.
1. Edwin Cannan
2. Warren Thompson/Frank Notestein
3. Thomas Malthus

Select the correct code:
(A) 3, 1, 2
(B) 1, 3, 2
(C) 2, 3, 1
(D) 3, 2, 1

116. Match the types of goods in List I with their characteristics in List II.
List I: (Type of Good)
P. Private Good (e.g., Coffee)
Q. Public Good (e.g., National Defense)
R. Common Resource (e.g., Ocean Fishery)
S. Club Good (e.g., Cable TV)
List II: (Characteristics)
1. Rival and Non-excludable
2. Non-rival and Non-excludable
3. Rival and Excludable
4. Non-rival and Excludable

Codes:
(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-1, S-3

117. What is the main critique of the Malthusian theory of population?
(A) It overestimates the desire for large families.
(B) It underestimates the impact of technological progress on food production.
(C) It focuses too much on migration.
(D) It ignores the role of government in population control.

118. A Cost-Benefit Analysis that concludes a project is desirable if the Net Present Value (NPV) is positive is essentially applying which rule?
(A) A project is desirable if NPV > 0.
(B) A project is desirable if NPV < 0.
(C) A project is desirable if the Benefit-Cost Ratio is less than 1.
(D) A project is desirable if the payback period is very long.

119. A key policy implication of the existence of a demographic dividend is the need for:
(A) Policies that encourage higher fertility rates.
(B) Job creation to absorb the large working-age population.
(C) Increased social security benefits for the elderly.
(D) Restrictions on internal migration.

120. In demography, fecundity refers to:
(A) The actual reproductive performance of a population.
(B) The physiological capability to conceive and bear children.
(C) The number of deaths in a population.
(D) The age structure of a population.

121. Consider the following statements about the Coase Theorem:
1. It applies only when property rights are not defined.
2. It suggests that the efficient outcome to

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non-rivalrous in consumption?
(A) 1, 2, and 3 only
(B) 1, 2, 4, and 5
(C) 3 and 5 only
(D) 4 and 5 only

102. The radix of a life table refers to:
(A) The hypothetical starting population, usually 100,000 (l_0).
(B) The final age in the table.
(C) The average life expectancy.
(D) The probability of death in the first year.

103. If the social cost of producing a good is greater than the private cost, it indicates the presence of a:
(A) Positive externality
(B) Negative externality
(C) Public good
(D) Monopoly

104. Which theory predicts that population growth will eventually be checked by famine, disease, and war?
(A) Optimum Theory of Population
(B) Malthusian Theory
(C) Theory of Demographic Transition
(D) Human Capital Theory

105. Brain drain is a term used to describe a consequence of migration, specifically:
(A) The loss of skilled and educated individuals from a source country.
(B) The increase in population density in the destination country.
(C) The transfer of money (remittances) back to the source country.
(D) The social integration challenges faced by migrants.

106. In a Cost-Benefit Analysis for a dam project, the loss of a natural habitat would be considered a(n):
(A) Direct benefit
(B) Indirect benefit
(C) Direct cost
(D) Intangible cost

107. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The Coase Theorem is rarely a practical solution for large-scale pollution problems like acid rain.
Reason (R) : The transaction costs of bargaining among millions of polluters and victims are prohibitively high, and free-rider problems are rampant.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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108. The measure of fertility that is independent of the age structure of the population is the:
(A) Crude Birth Rate (CBR)
(B) General Fertility Rate (GFR)
(C) Total Fertility Rate (TFR)
(D) Number of live births

109. An age-sex pyramid for a country in Stage 4 of the demographic transition would most likely be:
(A) Expansive, with a very wide base.
(B) Constrictive, with a base narrower than the middle.
(C) Stationary, resembling a column or rectangle.
(D) Inverted, with a very narrow base and wide top.

110. The Travel Cost Method is based on the assumption that:
(A) Willingness to pay for a good is perfectly reflected in survey responses.
(B) Site value is reflected in the time and money spent to visit it.
(C) Market property values accurately reflect local environmental quality.
(D) Total cost of avoiding damage reveals the value of the environment.

111. Which of the following demographic measures directly relates to the concept of generational replacement?
(A) Crude Death Rate (CDR)
(B) Infant Mortality Rate (IMR)
(C) Morbidity Rate
(D) Net Reproduction Rate (NRR)

(B) Geographic distribution
(C) Age and sex distribution
(D) Educational attainment

132. The primary difference between a stated preference and a revealed preference valuation method is that revealed preference methods are based on:
(A) Actual observable choices and market behavior
(B) Hypothetical market scenarios
(C) Expert opinion and judgment
(D) Political consensus and public debate

133. Consider the following statements about fertility measures:
1. General Fertility Rate (GFR) is more refined than Crude Birth Rate (CBR).
2. Total Fertility Rate (TFR) is affected by the age structure of the population.
3. Net Reproduction Rate (NRR) can never be higher than Gross Reproduction Rate (GRR).
4. A TFR of 2.1 is generally considered the replacement level in developed countries.

Which of the above statement(s) are correct?
(A) 1, 3 and 4
(B) 2 and 4 only
(C) 1 and 3 only
(D) All of the above

134. Remittances are a significant economic consequence of migration, referring to:
(A) Money sent by migrants to their families in the source country.
(B) The cost of travel for migrants.
(C) The loss of human capital in the source country.
(D) The social tensions in the destination country.

135. The column 'Tx' in a life table represents:
(A) The probability of survival from age x to x+1.
(B) The total person-years lived by the cohort from age x until the last member dies.
(C) The number of deaths in the interval x to x+1.
(D) The life expectancy at age x.

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136. Match the problems in List I with their examples in List II.
List I: (Problem)
P. Free-rider problem
Q. Tragedy of the Commons
R. Negative Externality
S. Information Asymmetry
List II: (Example)
1. Overfishing in international waters
2. A factory polluting a river without paying for damages
3. A person enjoying a public fireworks display without contributing
4. Sale of a used car with hidden defects

Codes:
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-1, R-2, S-4
(D) P-2, Q-4, R-1, S-3

137. Which stage of the Demographic Transition is often associated with the onset of the demographic dividend?
(A) Stage 1
(B) Stage 2
(C) Stage 3
(D) Stage 4

138. The use of property value differentials to estimate the value of environmental amenities like clean air is the basis of the:
(A) Travel Cost Method
(B) Contingent Valuation Method
(C) Hedonic Pricing Method
(D) Coase Theorem

139. Which of the following statements is true regarding the Coase Theorem?
(A) It proves that government intervention is always superior to private bargaining.
(B) It suggests that efficiency can be achieved regardless of who holds the property rights, as long as they can bargain.
(C) It is most effective in situations with high transaction costs.
(D) It requires that one party has complete information and the other has none.

140. A 'birth cohort' life table follows:
(A) The mortality experience of the entire population within a single year.

an externality is independent of the initial assignment of property rights.
3. It requires government taxation to achieve efficiency.
4. Its applicability is limited by the presence of transaction costs.
5. It was developed by Ronald Coase.

Which of the above statement(s) are correct?
(A) 1, 2 and 3
(B) 2, 4 and 5
(C) 1, 3 and 4
(D) 3, 4 and 5

122. Which of the following is an example of a pull factor in migration?
(A) Famine in the home region
(B) Political instability
(C) Higher wages in a different city
(D) Lack of land ownership

123. The value of a statistical life (VSL) is a concept used in Cost-Benefit Analysis to monetize:
(A) The cost of building a new hospital.
(B) The value of a pristine ecosystem.
(C) The benefits of mortality risk reduction.
(D) The total healthcare expenditure of a nation.

124. Read the following statements and choose the correct option.
Statement I : The demographic dividend is a permanent feature of a country's economy once it is achieved.
Statement II : The demographic dividend is a time-bound opportunity that eventually fades as the population ages.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false, but Statement II is true.
(D) Statement I is true, but Statement II is false.

125. The stationary population model, often associated with a life table, assumes:
(A) A constant increase in population size.
(B) Zero net migration and constant age-specific birth and death rates.
(C) A rapidly aging population.
(D) High fertility and high mortality.

126. Which of the following statements about market failure is incorrect?
(A) Externalities are a primary cause of market failure.
(B) The private market efficiently provides pure public goods.
(C) Imperfect information can lead to market failure.
(D) Common property resources are prone to over-exploitation, a form of market failure.

127. The term 'cohort' in demography refers to:
(A) The entire population of a country at a point in time.
(B) A group of people who experience the same demographic event in a particular period.
(C) The working-age population.
(D) The dependent population.

128. If an environmental project has a Benefit-Cost Ratio (BCR) of 1.5, it means that:
(A) The costs are 1.5 times the benefits.
(B) The benefits are 1.5 times the costs.
(C) The project breaks even.
(D) The project is not economically viable.

129. The idea that there is a level of population which, in combination with available resources and technology, yields the highest possible per capita income is known as:
(A) The Malthusian trap
(B) The demographic dividend
(C) The optimum population
(D) The replacement level

130. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The Travel Cost Method can only be used to estimate use values of environmental resources.
Reason (R) : The method is based on the observed behavior of people visiting a site, and thus cannot capture non-use values like existence value.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

131. A 'population pyramid' is a graphical representation of a population's:
(A) Income distribution

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(C) A is true but R is false.
(D) A is false but R is true.

151. Consider the following characteristics of environmental goods:
1. They are typically non-excludable.
2. They are often non-rival in consumption.
3. Their use often involves externalities.
4. They are always provided efficiently by the private market.
5. They lack a conventional market price.

Which of the following statement combinations is correct?
(A) 1, 2, 3, and 5
(B) 1, 2, 4, and 5
(C) 2, 3, and 4 only
(D) 1, 4, and 5 only

152. The Malthusian concept of 'positive checks' on population includes all of the following ExCEPT:
(A) Epidemics
(B) Famine
(C) War
(D) Celibacy

153. A period or current life table is constructed based on:
(A) The mortality rates prevailing in a population during a short period of time, such as a single year.
(B) The mortality experience of a group of people born in the same year.
(C) The fertility rates of a population over several decades.
(D) The migration patterns observed during a census.

154. If a project's costs are borne by the present generation while its benefits accrue to future generations, which element of Cost-Benefit Analysis becomes critically important and contentious?
(A) The choice of the discount rate.
(B) The identification of direct costs.
(C) The calculation of the benefit-cost ratio.
(D) The assignment of property rights.

155. Which of the following is a measure of mortality?
(A) Total Fertility Rate (TFR)
(B) Gross Reproduction Rate (GRR)
(C) Infant Mortality Rate (IMR)
(D) Net Migration Rate

156. The central argument of the Coase theorem is that in the absence of transaction costs, an efficient allocation of resources will be reached:
(A) Regardless of the initial assignment of property rights.
(B) Only if the government assigns liability to the polluter.
(C) Only if the externality is positive.
(D) Only if a large number of people are affected.

157. The demographic transition refers to a shift from:
(A) A young population to an old population.
(B) A rural population to an urban population.
(C) High birth/death rates to low birth/death rates.
(D) A net emigration country to a net immigration country.

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158. In which of the following scenarios would the Travel Cost Method be the most appropriate valuation technique?
(A) Valuing the reduction in health risks from lower air pollution.
(B) Valuing the existence of the Amazon rainforest.
(C) Valuing the recreational benefits of a national park.
(D) Valuing the impact of airport noise on house prices.

159. A key difference between Crude Birth Rate (CBR) and General Fertility Rate (GFR) is that GFR relates births to:
(A) The total population.
(B) The number of women of child-bearing age.
(C) The number of married women only.
(D) The number of households.

160. An expanding population pyramid, which is broad at the base and narrow at the top, suggests:
(A) Low birth rates and low death rates.
(B) High birth rates and a large young population.
(C) An aging population with low fertility.
(D) High levels of emigration.

(A) l_x / l_{x+1}
(B) $l_x - l_{x+1}$
(C) $l_x + l_{x+1}$
(D) $q_x * l_{x+1}$

83. Arrange the following events/concepts in chronological order of their typical appearance in demographic history:
1. Realization of Demographic Dividend
2. Onset of Stage 2 of Demographic Transition
3. Aging of Population (Stage 5)
4. Period of High Birth and High Death Rates (Stage 1)

Select the correct code:
(A) 4, 2, 1, 3
(B) 1, 2, 3, 4
(C) 4, 1, 2, 3
(D) 2, 4, 3, 1

84. The Coase Theorem is less likely to be applicable to the problem of global climate change because:
(A) Property rights to the global atmosphere are well-defined.
(B) Transaction costs involving billions of people and many nations are extremely high.
(C) Climate change is a positive externality.
(D) The impacts of climate change are easily reversible.

85. Consider the following statements:
1. A public good is both rivalrous and excludable.
2. Market failure for environmental goods is often due to undefined property rights.
3. The Coase theorem assumes zero transaction costs for private bargaining to be efficient.
4. Cost-Benefit Analysis is a method to avoid placing monetary values on environmental impacts.

Which of the above statement(s) is/are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 3
(D) 2, 3, and 4

86. Maternal Mortality Rate (MMR) is typically expressed as the number of maternal deaths per:
(A) 1,000 live births
(B) 100,000 live births
(C) 1,000 women of childbearing age
(D) 100,000 population

87. Which of the following is NOT a revealed preference method of environmental valuation?
(A) Choice Experiment
(B) Hedonic Pricing
(C) Travel Cost Method
(D) Averting Expenditure Method

88. According to Malthus, population increases in a/an _____ progression, while food production increases in a/an _____ progression.
(A) arithmetic; geometric
(B) geometric; arithmetic
(C) logarithmic; exponential
(D) exponential; logarithmic

89. A key difference between Morbidity and Mortality is that:
(A) Morbidity relates to illness, while Mortality relates to death.
(B) Morbidity relates to death, while Mortality relates to illness.
(C) Morbidity is a measure of fertility, while Mortality is a measure of migration.
(D) Morbidity is measured by the CDR, while Mortality is measured by the CBR.

90. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : In Stage 3 of the Demographic Transition, the population continues to grow, but at a decelerating rate.
Reason (R) : In Stage 3, the death rate remains low while the birth rate begins to fall, narrowing the gap between them.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

91. Which of the following best defines life expectancy at birth?
(A) The exact age to which every person in a cohort is expected to survive.
(B) The maximum age recorded for any single individual within a nation.
(C) Average years a newborn lives if current mortality rates persist.

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(D) Statement I is false, but Statement II is true.

171. A person who values the existence of blue whales, even though they may never see one, is said to hold a(n):
(A) Use value
(B) Option value
(C) Non-use value (or existence value)
(D) Bequest value

172. The term Morbidity is distinct from Mortality as it pertains to:
(A) Death rates
(B) Birth rates
(C) Sickness and disease rates
(D) Migration rates

173. The demographic dividend window starts to close when:
(A) The fertility rate of a country begins to experience a new rise.
(B) The working cohort retires, raising the dependency ratio.
(C) The youth dependency ratio reaches its peak for the population.
(D) The country enters Stage 2 of the demographic transition model.

174. Which of the following valuation methods is based on respondents' answers to questions about hypothetical scenarios?
(A) Hedonic Pricing
(B) Travel Cost Method
(C) Contingent Valuation
(D) Production Function Approach

175. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : Market mechanisms often fail to provide the optimal amount of a public good.
Reason (R) : Due to the properties of non-excludability and non-rivalry, the free-rider problem arises, leading to under-provision.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

176. Which of the following is NOT a stage in the theory of demographic transition?
(A) High stationary
(B) Early expanding
(C) Late expanding
(D) Economic stagnation

177. A life table provides all the following information ExCEPT:
(A) Life expectancy at various ages.
(B) Probability of death at various ages.
(C) Causes of death at various ages.
(D) Number of survivors at various ages from a cohort.

178. The primary focus of the Optimum Theory of Population is on:
(A) The ethical implications of population growth.
(B) The relationship between population size and economic welfare (per capita income).
(C) The historical trend of population growth.
(D) The biological limits to population growth.

179. A compensation test is associated with which of the following?
(A) Coase Theorem
(B) Malthusian Theory
(C) Cost-Benefit Analysis
(D) Life Table Construction

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180. The movement of a person from a rural village to a large city within the same country is known as:
(A) International emigration
(B) International immigration
(C) Internal migration
(D) Transnationalism

181. Consider the following statements regarding the valuation of environmental goods:
1. The Travel Cost Method is a revealed preference technique.
2. The Hedonic Pricing Method estimates value from property prices.
3. The Contingent Valuation Method is susceptible to hypothetical bias.
4. The Production Function Method values an environmental resource as an input into a marketed good.
5. All environmental goods have readily

202. Which of the following is the best example of a good that is excludable but non-rival?
(A) A fish in the ocean
(B) A loaf of bread
(C) A subscription to a streaming service
(D) A broadcast television signal

203. The Malthusian theory of population has been criticized for underestimating:
(A) The rate of population growth.
(B) The human desire for children.
(C) The potential for technological improvements in food production.
(D) The role of positive checks like war and famine.

204. The value q_0 in a life table represents:
(A) The total number of births.
(B) The probability of a newborn dying before reaching age 1.
(C) The number of people who survive to age 1.
(D) The life expectancy at age 0.

205. In a Cost-Benefit Analysis, an intangible benefit would be:
(A) Increased revenue from ticket sales.
(B) The cost of construction materials.
(C) Improved scenic beauty from a new park.
(D) Wages paid to construction workers.

206. In the context of the Coase theorem, what are transaction costs?
(A) The price of the good being produced.
(B) The costs associated with bargaining and enforcing an agreement.
(C) The tax imposed by the government on a polluting firm.
(D) The value of the externality itself.

207. A population pyramid that is nearly vertical with a slight tapering at the top is characteristic of a population that is:
(A) Rapidly growing
(B) Young and expanding
(C) Stable or experiencing slow growth
(D) In decline with an aging populace

208. The main difference between Gross Reproduction Rate (GRR) and Total Fertility Rate (TFR) is that GRR:
(A) Includes the effect of mortality.
(B) Considers only the births of daughters.
(C) Is a cruder measure than TFR.
(D) Applies only to developed countries.

209. The movement of highly skilled professionals from developing countries to developed countries is known as:
(A) Brain gain
(B) Brain drain
(C) Forced migration
(D) Circular migration

210. Which statement incorrectly describes the Theory of Demographic Transition?
(A) It describes the population dynamics of a country as it develops economically.
(B) It posits a transition from high to low vital rates.
(C) It predicts that all countries will ultimately have high birth rates and high death rates.
(D) It states that the death rate falls before the birth rate.

211. Which of the following statements are true regarding Cost-Benefit Analysis (CBA)?
1. It is only applicable to private sector projects.
2. It requires that all impacts are valued in a common unit, typically money.
3. The choice of discount rate can significantly alter the outcome.
4. The Pareto criterion is a more lenient compensation rule than the Kaldor-Hicks criterion.

Select the correct code:
(A) 2 and 3 only
(B) 1 and 4 only
(C) 1, 2, and 3
(D) 2, 3, and 4

212. The key insight of the Coase theorem is that efficient outcomes to externality problems can be achieved through:
(A) Government regulation
(B) Pigouvian taxes
(C) Private bargaining
(D) Public provision

213. Demographic momentum refers to the tendency for a population to:
(A) Stop growing immediately when fertility rates fall to the replacement level.

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(C) Each generation of mothers is exactly replacing itself.
(D) The death rate is equal to one.

193. The problem with relying on the private market to provide a public good like flood control is the:
(A) Monopoly problem
(B) Free-rider problem
(C) High production cost problem
(D) Lack of demand problem

194. Match the theories and concepts in List I with their associated ideas in List II.
List I: (Theory/Concept)
P. Coase Theorem
Q. Demographic Dividend
R. Malthusian Trap
S. Pareto Criterion
List II: (Associated Idea)
1. Population growth exceeds resource growth
2. No one can be made better off without making someone worse off
3. Private bargaining can solve externalities
4. Economic growth from a favourable age structure
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

195. Read the following statements and choose the correct option.
Statement I : The Total Fertility Rate (TFR) is an age-standardized measure of fertility.
Statement II : The Crude Birth Rate (CBR) is heavily influenced by the age and sex structure of the population.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

196. The study of the incidence and distribution of diseases in a population is known as:
(A) Mortality analysis
(B) Fertility analysis
(C) Epidemiology
(D) Gerontology

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197. Which of the following is an example of a push factor for migration?
(A) Availability of better schools in a destination city.
(B) Higher employment opportunities in a foreign country.
(C) Religious persecution in the home country.
(D) Family members already living in the destination.

198. The 'Tragedy of the Commons' is most likely to occur with which of the following?
(A) A private garden
(B) A subscription-based online journal
(C) International fishing grounds
(D) National defense

199. Life expectancy at birth is a key summary measure derived from a:
(A) Population pyramid
(B) Census survey
(C) Life table
(D) Migration report

200. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The demographic dividend is not automatic.
Reason (R) : For a country to benefit from its demographic dividend, it must have enabling policies in place, such as quality education, healthcare, and a flexible labor market.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

201. Consider the following demographic metrics:
1. Crude Birth Rate (CBR)
2. Total Fertility Rate (TFR)
3. Gross Reproduction Rate (GRR)
4. Net Reproduction Rate (NRR)
5. Maternal Mortality Rate (MMR)
Which of the above are direct measures of fertility?
(A) 1, 2, 3, and 4
(B) 1 and 2 only
(C) 2, 3, and 4 only
(D) All of the above

246. What is the relationship between the Gross Reproduction Rate (GRR) and the Net Reproduction Rate (NRR) for any given population?
(A) GRR is always greater than or equal to NRR.
(B) NRR is always greater than GRR.
(C) NRR and GRR are always equal.
(D) There is no systematic relationship between NRR and GRR.

247. The concept of compensation criteria developed by Kaldor and Hicks was designed to evaluate the welfare implications of a policy change when:
(A) Some are made better off, and some are made worse off.
(B) Everyone is made better off.
(C) Everyone is made worse off.
(D) No one's welfare changes.

248. An age structure pyramid that is broader in the middle (for working ages) than at the base (for young ages) is typical of a country experiencing:
(A) Low fertility and an aging population
(B) A baby boom
(C) Stage 2 of the demographic transition
(D) High infant mortality

249. Which of the following correctly pairs a migration factor with its type?
(A) Famine and drought - Environmental push factor
(B) War and conflict - Economic pull factor
(C) Better job prospects - Social push factor
(D) Political freedom - Economic push factor

250. The core reason for market failure in the case of environmental goods is that:
(A) Their costs and benefits are not fully reflected in market prices.
(B) They are not scarce.
(C) There is no demand for them.
(D) They are produced only by the government.

Direction : Please read the following source carefully.

The environment, encompassing resources such as clean air, biodiversity, and climate stability, is often characterized in economics as a public good. The two defining properties of a pure public good are non-rivalry and non-excludability. Non-rivalry implies that one person's consumption of the good does not diminish the amount available for others. For instance, one individual breathing clean air does not prevent others from doing the same. Non-excludability means that it is prohibitively costly or impossible to prevent individuals who do not pay for the good from consuming it. This characteristic leads to the free-rider problem, where individuals have an incentive to benefit from the good without contributing to its provision or maintenance. Because private firms cannot easily charge for environmental goods and exclude non-payers, there is no effective price signal to guide resource allocation. Consequently, the private market, driven by profit motives, will either fail to provide these goods at all or will systematically under-provide them relative to the socially optimal level. This phenomenon is a classic example of market failure, where the market's allocation of goods and services is not Pareto efficient, necessitating government intervention through regulation, taxation, or direct provision to correct for the externality and improve overall social welfare.

Based on the above source, attempt the following five questions.

251. Which pair of characteristics defines a pure public good like clean air?
(A) Rivalry and excludability
(B) Non-rivalry and non-excludability
(C) Scarcity and marketability
(D) Private ownership and profitability

252. According to the passage, market failure in the context of the environment occurs primarily because:
(A) the market lacks a price mechanism to ensure the optimal provision of non-excludable goods.
(B) environmental goods are too expensive for most consumers to afford.
(C) private firms lack the technology to produce environmental quality.
(D) government regulations are too strict, stifling private sector innovation.

253. The free-rider problem directly results from which property of an environmental good?
(A) Non-rivalry
(B) Scarcity

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(B) Continue growing for some time even after fertility rates fall, due to a large number of young people.
(C) Shrink rapidly once fertility falls below replacement level.
(D) Have stable birth and death rates.

214. The Hedonic Pricing method infers the value of an environmental amenity by analyzing the market for:
(A) Property
(B) Labor
(C) Travel
(D) Stocks

215. The Age-Specific Death Rate (ASDR) is superior to the Crude Death Rate (CDR) as a comparative measure because:
(A) It is easier to calculate.
(B) It is not influenced by the age structure of the populations being compared.
(C) It only considers deaths from a single cause.
(D) It uses a larger denominator.

216. A public good is defined by which two properties?
(A) Scarcity and high value
(B) Government provision and tax funding
(C) Non-rivalry and non-excludability
(D) Rivalry and excludability

217. In the fourth stage of the demographic transition, the rate of natural population increase is:
(A) High and accelerating
(B) High but stable
(C) Low or zero
(D) Negative and falling

218. The life table function Lx represents:
(A) The number of people alive at the beginning of the age interval x.
(B) The total number of years lived by the population between ages x and x+1.
(C) The probability of dying within the age interval x to x+1.
(D) The life expectancy at age x.

219. Which theory suggests that every country has a population size that maximizes its economic prosperity?
(A) Malthusian Theory
(B) Demographic Transition Theory
(C) Optimum Theory of Population
(D) Coase Theorem

220. Read the following statements and choose the correct option.
Statement I : Migration always leads to a net economic gain for the destination country.
Statement II : Migration can have both positive consequences, such as filling labor shortages, and negative consequences, such as pressure on social services.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false, but Statement II is true.
(D) Statement I is true, but Statement II is false.

221. Match the terms in List I with their core concepts in List II.
List I: (Term)
P. Environment as a Public Good
Q. Market Failure
R. Coase Theorem
S. Cost-Benefit Analysis
List II: (Core Concept)
1. Inefficiency due to externalities
2. Private negotiation over property rights
3. Comparing discounted benefits and costs
4. Non-rivalry and non-excludability
Codes:
(A) P-1, Q-4, R-2, S-3
(B) P-4, Q-1, R-3, S-2
(C) P-4, Q-1, R-2, S-3
(D) P-2, Q-3, R-1, S-4

222. The period when a country has a relatively large share of its population in the working ages is referred to as the:
(A) Demographic dividend
(B) Demographic trap
(C) Population explosion
(D) Malthusian epoch

223. The free-rider problem makes it difficult for private markets to provide:
(A) Public goods
(B) Private goods
(C) Club goods
(D) Common resources

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260. In a Coasian bargain involving a polluting factory and a damaged fishery, an efficient solution is reached when:
(A) the negotiated level of pollution maximizes the joint profit of the factory and the fishery.
(B) the factory completely ceases all polluting activities.
(C) the fishery relocates to a different, unpolluted river.
(D) the government imposes a tax equal to the marginal external cost.

Direction : Please read the following source carefully.

Cost-Benefit Analysis (CBA) is a systematic analytical tool used to evaluate the desirability of public projects, including those with significant environmental impacts. The core principle of CBA is to quantify, in monetary terms, all the costs and benefits associated with a project over its lifespan. These future values are then discounted to their present values to account for the time value of money. A project is typically deemed economically feasible if its total discounted benefits exceed its total discounted costs, or equivalently, if its Net Present Value (NPV) is positive. However, public projects often create winners and losers. This is where compensation criteria, such as the Kaldor-Hicks criterion, become relevant. The Kaldor-Hicks compensation principle states that a change in resource allocation is efficient if the gains to the winners are large enough that they could, in theory, fully compensate the losers and still have a net gain. It does not require that the compensation actually be paid. Therefore, a project with a positive NPV satisfies the Kaldor-Hicks criterion because the total benefits (gains) outweigh the total costs (losses), implying that the winners could hypothetically compensate the losers. This allows for the evaluation of projects that are not Pareto improvements but are considered potential Pareto improvements.

Based on the above source, attempt the following five questions.

261. What is the fundamental decision rule in Cost-Benefit Analysis?
(A) A project is approved if its total costs are minimized.
(B) A project is approved if it benefits more people than it harms.
(C) A project is approved if its benefits are realized in the short term.
(D) A project is approved if its Net Present Value is greater than zero.

262. The Kaldor-Hicks compensation criterion suggests that a policy change is desirable if:
(A) all members of society are made better off.
(B) the gains to the winners are sufficient to potentially compensate the losers.
(C) the losers are actually and fully compensated for their losses by the winners.
(D) the government directly compensates all parties who incur losses.

263. How does Cost-Benefit Analysis account for costs and benefits that occur at different points in time?
(A) By averaging them over the project's lifespan
(B) By giving more weight to future benefits than present costs
(C) By discounting all future values to a common present value
(D) By ignoring costs and benefits that occur more than ten years in the future

264. A project that satisfies the Kaldor-Hicks criterion is best described as:
(A) a guaranteed Pareto improvement.
(B) an outcome that requires no compensation.
(C) an allocation that is inherently inequitable.
(D) a potential Pareto improvement.

265. The connection between Cost-Benefit Analysis and the compensation principle is that a project with a positive NPV:
(A) implies that winners' gains are sufficient to hypothetically compensate losers.
(B) ensures that no one is made worse off.
(C) requires the government to tax winners and subsidize losers directly.
(D) is only considered efficient if compensation is actually paid.

Direction : Please read the following source carefully.

A significant challenge in environmental economics, particularly for Cost-Benefit Analysis, is the valuation of environmental goods and services. Since goods like scenic beauty, clean air, or the existence of a species are not traded in

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dependent (either young or old).
(B) A large part of the population is of working age.
(C) The population is growing very slowly.
(D) The country has a high life expectancy.

235. The fundamental proposition of Malthus's theory is that:
(A) Population grows arithmetically, and food supply grows geometrically.
(B) Population and food supply grow at the same rate.
(C) Population growth is always beneficial for a country.
(D) Population tends to grow faster than the means of subsistence.

236. Which of the following statements about migration is correct?
(A) Pull factors are reasons for leaving a location.
(B) Push factors are reasons for being drawn to a location.
(C) Lack of employment is a common push factor.
(D) Political stability is a common push factor.

237. Which of the following is a revealed preference method of environmental valuation?
(A) Travel Cost Method
(B) Contingent Valuation
(C) Choice Modelling
(D) Expert Opinion

238. In a life table, if l_x is the number of survivors at age x and l_{x+1} is the number of survivors at age x+1, then d_x (the number of deaths) is:
(A) l_x - l_{x+1}
(B) l_x + l_{x+1}
(C) l_x / l_{x+1}
(D) l_{x+1} - l_x

239. The provision of national defense is a classic example of a public good because it is:
(A) Inefficient and costly
(B) Provided by the government
(C) Highly regulated
(D) Non-excludable and non-rival

240. The demographic dividend occurs when:
(A) The dependency ratio is low.
(B) The birth rate is higher than the death rate.
(C) The population is aging rapidly.
(D) Life expectancy is increasing.

241. Consider the following statements related to market failure:
1. Public goods are underprovided by the market due to the free-rider problem.
2. Negative externalities lead to an overproduction of the associated good.
3. The Coase theorem suggests that government intervention is the only solution to externalities.
4. The 'Tragedy of the Commons' applies to rival and excludable goods.

Which of the above statement(s) are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3
(D) 1, 2 and 4

242. The Total Fertility Rate (TFR) represents:
(A) The total number of births in a specific year.
(B) The number of births per 1,000 women.
(C) The average number of children a woman would bear in her lifetime at current age-specific rates.
(D) The capacity of a population to reproduce.

243. The Optimum Theory of Population posits that there is an ideal population size for a country that maximizes:
(A) Per capita income
(B) Total Gross National Product
(C) The rate of population growth
(D) Land area per person

244. A major critique of the Contingent Valuation Method is its susceptibility to:
(A) Data unavailability
(B) Multi-collinearity
(C) Hypothetical bias
(D) High travel costs

245. Which of the following is considered a 'preventive check' in Malthusian theory?
(A) Postponement of marriage
(B) Famine
(C) War
(D) Plague

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available market prices for valuation.

Which of the following statement combinations is correct?

(A) 1, 2, 3, and 4
(B) 1, 3, and 5 only
(C) 2, 4, and 5 only
(D) All of the above

182. According to the Coase Theorem, if transaction costs are zero, the final allocation of resources in the presence of an externality will be efficient:
(A) Only if the government imposes a tax.
(B) Only if property rights are given to the victim.
(C) Regardless of the initial allocation of property rights.
(D) Only if the number of parties is very large.

183. Which demographic rate is calculated by dividing the number of births in a year by the number of women aged 15-49?
(A) Crude Birth Rate
(B) General Fertility Rate
(C) Total Fertility Rate
(D) Net Reproduction Rate

184. A key benefit of migration for the source country is often:
(A) Brain drain
(B) A reduction in unemployment pressure
(C) An increase in the dependency ratio
(D) A loss of tax revenue

185. In Cost-Benefit Analysis, a higher discount rate:
(A) Gives less weight to future benefits and costs.
(B) Gives more weight to future benefits and costs.
(C) Has no impact on the net present value of a project.
(D) Is used only when costs are in the future and benefits are in the present.

186. The concept of fecundity is a measure of a population's:
(A) Actual reproductive output.
(B) Physiological capacity to reproduce.
(C) Rate of mortality.
(D) Age composition.

187. The second stage of the demographic transition is characterized by:
(A) Low birth rate and low death rate.
(B) Falling birth rate and low death rate.
(C) High birth rate and falling death rate.
(D) High birth rate and high death rate.

188. Which of the following is the defining characteristic of a common-pool resource?
(A) Non-rival and excludable
(B) Rival and excludable
(C) Rival and non-excludable
(D) Non-rival and non-excludable

189. A population pyramid that is 'constrictive' at the base signifies:
(A) A high and rising birth rate.
(B) A low and falling birth rate.
(C) A stable population.
(D) A high death rate among young people.

190. The term 'externality' in environmental economics refers to:
(A) The external funding received for environmental projects.
(B) An uncompensated cost or benefit imposed on a third party not involved in a transaction.
(C) The export of environmental technology to other countries.
(D) The price of a good determined in an external market.

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191. Arrange the steps of a typical Cost-Benefit Analysis in the correct logical sequence.
1. Monetize all costs and benefits.
2. Identify all potential project impacts (costs and benefits).
3. Discount future costs and benefits to find the Net Present Value (NPV).
4. Define the scope of the project and its objectives.

Select the correct code:
(A) 4, 2, 1, 3
(B) 1, 2, 3, 4
(C) 4, 1, 2, 3
(D) 2, 4, 1, 3

192. What does a Net Reproduction Rate (NRR) of exactly 1.0 signify?
(A) The population is growing rapidly.
(B) The population is declining rapidly.

(C) Non-excludability
(D) Durability

254. What is the most likely outcome for a public good in a purely private market, as described in the source?
(A) Over-provision relative to social need
(B) Efficient and equitable distribution
(C) Provision at the socially optimal level
(D) Under-provision or no provision at all

255. The passage suggests that the failure of markets to efficiently allocate environmental resources justifies:
(A) the complete privatization of all natural resources.
(B) a policy of non-intervention to allow the market to self-correct.
(C) government intervention to improve social welfare.
(D) a reduction in the overall demand for environmental goods.

Direction : Please read the following source carefully.

The Coase Theorem, a foundational concept in environmental economics, offers a theoretical solution to the problem of externalities without direct government intervention. It posits that if property rights are well-defined and enforceable, and if transaction costs are zero or negligible, then private parties can negotiate a mutually beneficial and efficient outcome, regardless of the initial allocation of those property rights. For instance, if a factory pollutes a river harming a downstream fishery, the theorem suggests that the factory owner and the fishery owner can bargain to determine the optimal level of pollution. The party with the property right (either the right to pollute or the right to clean water) will be compensated by the other party. The final level of economic activity and pollution will be socially efficient, meaning it will maximize the joint value for both parties. However, the practical application of the Coase Theorem to large-scale environmental problems is severely limited. The assumption of zero transaction costs is particularly unrealistic when many parties are involved, as is often the case with air or water pollution. The costs of identifying all affected parties, negotiating, and enforcing agreements can become prohibitively high, preventing the efficient Coasian bargain from ever taking place.

Based on the above source, attempt the following five questions.

256. What are the two critical conditions for the Coase Theorem to result in an efficient outcome?
(A) Government regulation and zero pollution
(B) Well-defined property rights and zero transaction costs
(C) Equal distribution of income and perfect information
(D) State ownership of resources and high transaction costs

257. According to the Coase Theorem, how does the initial assignment of property rights affect the final outcome?
(A) It determines whether an efficient outcome is possible.
(B) It solely dictates who will bear the cost of the externality.
(C) It must be assigned to the party that is being harmed for efficiency to be achieved.
(D) It does not affect the efficiency of the outcome, only the distribution of wealth.

258. The passage identifies which of the following as the most significant practical challenge in applying the Coase Theorem to widespread environmental pollution?
(A) The presence of high transaction costs when many parties are involved
(B) The difficulty in defining property rights for air and water
(C) The unwillingness of polluters to negotiate in good faith
(D) The absence of a legal framework for enforcing contracts

259. The process of bargaining between a polluter and a victim, as described by the Coase Theorem, is a method of:
(A) establishing a government-mandated emission standard.
(B) calculating the social cost of the externality for taxation purposes.
(C) internalizing the externality through private negotiation.
(D) shifting the externality from one group to another.

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224. The difference between fertility and fecundity is that fertility refers to _____, while fecundity refers to _____.
(A) physiological ability to reproduce; actual reproductive performance
(B) male reproductive capacity; female reproductive capacity
(C) actual reproductive performance; physiological ability to reproduce
(D) number of live births; number of total pregnancies

225. Which of the following is NOT a necessary condition for the Coase Theorem to yield an efficient result?
(A) Clearly defined property rights
(B) Zero or very low transaction costs
(C) Government intervention to set prices
(D) A small number of bargaining parties

226. Consider the following statements about migration patterns:
1. Internal migration involves crossing an international border.
2. Rural-to-urban migration is a dominant trend in many developing nations.
3. Push factors attract migrants to a new location.
4. Brain drain is a potential negative consequence for the source country.
5. Remittances are a key economic benefit for the destination country.

Which of the above statement(s) are correct?
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 3, and 5
(D) 2, 4, and 5

227. The concept of using a survey to ask people how much they would be willing to pay for an environmental improvement is central to:
(A) The Contingent Valuation Method
(B) The Hedonic Pricing Method
(C) The Travel Cost Method
(D) The Production Function Method

228. The shift from Stage 2 to Stage 3 in the Demographic Transition Model is primarily caused by:
(A) A significant decline in the birth rate
(B) A sharp rise in the death rate
(C) A major increase in emigration
(D) A government-mandated one-child policy

229. If a steel mill pollutes the air, the divergence between the private and social costs of steel production is an example of:
(A) A market success
(B) A market failure due to a negative externality
(C) A market failure due to a public good
(D) A positive externality

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230. A life table is a tool used to analyze:
(A) Fertility
(B) Morborbidity
(C) Migration
(D) Mortality

231. The primary cause of the Tragedy of the Commons is the conflict between:
(A) Public and private goods
(B) Individual self-interest and the collective good
(C) Stated and revealed preferences
(D) Present and future generations

232. Read the given Assertion (A) and Reason (R) and choose the correct option from the following.
Assertion (A) : The Crude Birth Rate (CBR) is a less refined measure of fertility than the Total Fertility Rate (TFR).
Reason (R) : The CBR's denominator is the total population, which includes males, children, and the elderly, who are not at risk of giving birth, whereas TFR is standardized by age.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

233. The Kaldor-Hicks compensation principle is a core concept in:
(A) Population theory
(B) Environmental valuation
(C) Cost-Benefit Analysis
(D) Life table construction

234. An age structure with a high dependency ratio indicates that:
(A) A large part of the population is economically

conventional markets, they lack an explicit price. To overcome this, economists have developed various valuation techniques. These can be broadly categorized into revealed preference and stated preference methods. Revealed preference methods infer values from actual, observable choices made by individuals in related markets. The Hedonic Pricing Method, for example, deduces the value of an environmental amenity (like proximity to a park or low air pollution) by analyzing its effect on the market prices of related goods, typically housing. The Travel Cost Method is another revealed preference technique that uses the costs incurred by individuals to visit a recreational site to estimate the value of that site. In contrast, stated preference methods use carefully designed surveys to ask people directly about their willingness to pay for an environmental good. The most prominent example is the Contingent Valuation Method (CVM), which constructs a hypothetical market and asks respondents to state their maximum willingness to pay for a specified environmental improvement, contingent on the existence of that market.

Based on the above source, attempt the following five questions.

266. Which valuation technique involves creating a hypothetical market through surveys to elicit willingness to pay?
(A) Hedonic Pricing Method
(B) Contingent Valuation Method
(C) Travel Cost Method
(D) Market Price Method

267. The Hedonic Pricing Method is classified as a revealed preference technique because it:
(A) asks people directly what they are willing to pay.
(B) infers value from observable choices in the housing market.
(C) calculates the travel expenses people incur to enjoy an amenity.
(D) uses government-set prices for environmental damages.

268. An economist estimating the value of a national park by analyzing the money spent by visitors on fuel, lodging, and entry fees is most likely using the:
(A) Travel Cost Method.
(B) Contingent Valuation Method.
(C) Market Price Method.
(D) Hedonic Pricing Method.

269. What is the fundamental difference between stated preference and revealed preference methods?
(A) Stated preference methods are more accurate than revealed preference methods.
(B) Revealed preference methods rely on hypothetical scenarios, while stated preference methods use actual market data.
(C) Stated preference methods rely on survey responses, while revealed preference methods use data on actual behavior.
(D) Revealed preference methods can only be used for pollution, while stated preference methods are for recreational sites.

270. The primary reason for using specialized valuation techniques for environmental goods is that they:
(A) have benefits that are too small to be measured by standard economic tools.
(B) are always owned by the government, which prohibits their sale.
(C) are infinitely abundant and therefore have zero value.
(D) are typically not traded in conventional markets and thus have no explicit price.

Direction : Please read the following source carefully.

The study of population dynamics is anchored by several key theories. The Malthusian theory, one of the earliest, posits a fundamental tension between population growth and the means of subsistence. Thomas Malthus argued that population, when unchecked, tends to grow at a geometric rate (e.g., 1, 2, 4, 8), while the food supply or subsistence increases at a much slower arithmetic rate (e.g., 1, 2, 3, 4). This disparity would inevitably lead to a point where the population outstrips resources. Malthus identified two types of checks that limit population growth: 'preventive checks' such as moral restraint and delayed marriage, which lower the birth rate, and 'positive checks' like famine, disease, and war, which increase the death rate. In contrast, the Theory of Demographic Transition provides a more historical and descriptive model of population change. It describes a sequence

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296. According to the passage, how does rapid population growth primarily affect environmental public goods?
(A) It increases the supply of public goods through innovation.
(B) It reduces the free-rider problem associated with them.
(C) It has no significant or measurable impact on environmental goods.
(D) It intensifies the stress on them through increased consumption and waste.

297. The demographic trend of urbanization, driven by migration, often heightens the need for which specific tool of environmental economics?
(A) Valuation of urban environmental amenities and pollution costs
(B) The Coase Theorem for rural land disputes
(C) Theories of population growth in agricultural societies
(D) The construction of cohort life tables

298. The passage suggests that the economic growth spurred by a demographic dividend can have a negative environmental side-effect by:
(A) increasing the dependency ratio.
(B) accelerating consumption and industrial activity.
(C) leading to lower levels of education.
(D) causing a decline in the working-age population.

299. From an integrated environmental-demographic perspective, a growing population can worsen market failures by:
(A) creating perfectly defined property rights for all common resources.
(B) increasing the number of individuals contributing to and being affected by externalities.
(C) reducing transaction costs for environmental negotiations.
(D) ensuring the provision of public goods through private markets.

300. An integrated analysis, as described in the source, would view policies that influence fertility and migration as:
(A) a potential long-term strategy for mitigating environmental pressures.
(B) irrelevant to environmental management.
(C) a short-term solution for acute pollution events.
(D) a replacement for Cost-Benefit Analysis and other economic tools.

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(A) Fertility
(B) Fecundity
(C) Morbidity
(D) Mortality

277. The Crude Birth Rate (CBR) is conventionally expressed as the number of live births per:
(A) 1,000 women of childbearing age.
(B) 100 individuals in the population.
(C) 100 households in a given area.
(D) 1,000 individuals in the mid-year population.

278. The study of morbidity within a population is primarily concerned with:
(A) the causes of death.
(B) the patterns of disease and illness.
(C) the potential to reproduce.
(D) the rate of natural increase.

279. A public health official tracking the total number of active COVID-19 cases in a city on a single day is measuring the:
(A) incidence rate.
(B) crude death rate.
(C) prevalence rate.
(D) fertility rate.

280. The rate of natural increase of a population is calculated as the:
(A) sum of the Crude Birth Rate and Crude Death Rate.
(B) ratio of the Crude Birth Rate to the Crude Death Rate.
(C) product of the fertility rate and the mortality rate.
(D) difference between the Crude Birth Rate and Crude Death Rate.

Direction : Please read the following source carefully.

A population's age structure, which is the distribution of people among various ages, is a critical demographic characteristic with profound economic implications. It is often visualized using a population pyramid. The shape of this pyramid reveals much about a country's demographic history and future prospects. A key concept linked to age structure is the demographic dividend. This term refers to the potential for accelerated economic growth that can arise from a change in a population's age structure, specifically when the proportion of the working-age population (typically defined as 15-64 years) is larger than the proportion of the non-working-age (dependent) population (children under 15 and adults over 64). This period, often called the demographic window of opportunity, occurs when fertility rates decline, leading to a bulge in the working-age group relative to the young dependent group. A lower dependency ratio means that working-age individuals have fewer dependents to support, potentially boosting savings and investment. However, the dividend is not automatic. To realize this potential, a country must have effective policies in place, including investments in education, health, and, critically, an economy capable of creating sufficient jobs to absorb the expanding labor force.

Based on the above source, attempt the following five questions.

281. The demographic dividend refers to the potential for economic growth resulting from:
(A) a large proportion of working-age people relative to dependents.
(B) a rapid increase in the total population size.
(C) a high proportion of elderly citizens in the population.
(D) a significant increase in international migration.

282. What does a population pyramid with a very wide base typically indicate?
(A) A low death rate
(B) A high birth rate and a young population
(C) An aging population
(D) A low birth rate

283. The demographic window of opportunity is characterized by a:
(A) high dependency ratio.
(B) low dependency ratio.
(C) stable age structure.
(D) high and rising fertility rate.

284. According to the passage, which factor is crucial for a country to transform the potential demographic dividend into actual economic growth?
(A) Having an economy that can provide jobs for the large workforce
(B) Restricting access to healthcare to reduce

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benefits. Contrary to focusing only on private gains, its primary objective is to measure the social welfare impact. This involves quantifying both internal and external effects in monetary terms, including environmental changes and public health impacts, which are then discounted to their current values.

9. (A) 1 and 4 only

Environmental goods frequently possess the characteristics of public goods, such as non-excludability and non-rivalry, which makes their market allocation inefficient. Clean air serves as a primary example because individuals cannot be prevented from breathing it, and one person's consumption does not reduce the supply for others. However, valuing these resources is often quite complex and indirect, as they typically lack conventional market prices or established trading systems.

10. (A) Economic growth from population age structure changes.

This phenomenon refers to the potential for accelerated economic development that occurs when a country's birth rate declines. Such a shift leads to a change in the age distribution, resulting in a larger proportion of the population being in the productive working-age group compared to the young and elderly dependents. To capitalize on this opportunity, nations must implement effective policies regarding health, education, and labor market flexibility.

11. (D) An environmental push factor

Migration is often categorized by the specific pressures or attractions that motivate individuals to relocate from their original home to a new destination. Push factors are negative conditions that drive people away, such as natural disasters, resource depletion, or climatic changes. In this scenario, a prolonged drought represents a significant environmental degradation that forces rural residents to seek survival elsewhere, making it a clear push factor.

12. (B) The probability of an individual of age x dying before reaching age x+1.

A life table is a fundamental demographic tool used to represent the mortality experience of a cohort throughout its lifespan. Within this framework, the specific notation refers to the conditional probability of death within a single year of age. It measures the likelihood that a person who has successfully reached a certain age will die before reaching the next age interval, based on prevailing mortality rates.

13. (C) Stage 2

According to the theory of demographic transition, this particular phase is defined by a massive gap between birth and death rates. While birth rates remain traditionally high due to cultural norms, death rates begin to fall rapidly because of improvements in food security, public health, and sanitation. This imbalance creates a period of significant natural increase, often referred to as a population explosion, before birth rates begin to decline.

14. (D) Mortality - Crude Death Rate

Demography utilizes specific indicators to measure different population dynamics such as fertility, migration, and health. Mortality refers specifically to the occurrence of death within a population, and the crude death rate is the standard measure used to express the total number of deaths per one thousand individuals in a single year. Other terms, like morbidity and fertility, represent different concepts such as the prevalence of illness and birth performance.

15. (A) P-2, Q-4, R-1, S-3

Environmental valuation methods employ different logical bases to estimate the value of non-market resources. Hedonic pricing uses differentials in property values to infer the value of environmental quality. Contingent valuation directly surveys individuals regarding their willingness to pay for a resource. The travel cost method estimates recreational value based on visitors' expenditures. Finally, the production function method calculates how environmental inputs contribute to the output of commercially traded goods.

16. (B) Gainers can potentially compensate losers and still remain better off.

This compensation criterion is used in welfare economics to evaluate whether a policy change increases overall social efficiency. It posits that a change is desirable if those who benefit from the intervention gain enough to theoretically compensate those who are disadvantaged, while

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To understand the drivers of migration, scholars often use the push-pull framework. Push factors are conditions at the place of origin that are perceived as negative and encourage people to leave. These can include economic hardship, lack of employment opportunities, political instability, conflict, or environmental degradation. Conversely, pull factors are positive conditions at the destination that attract migrants. Common pull factors include the availability of better jobs, higher wages, educational opportunities, political freedom, and a more desirable environment or quality of life. The decision to migrate is often a complex calculation based on the perceived balance of these push and pull factors, mediated by personal characteristics and intervening obstacles such as distance and immigration laws.
Based on the above source, attempt the following five questions.

291. In the context of migration, which of the following is an example of a push factor?
(A) Higher wages in a destination city
(B) The presence of family members in a new country
(C) Political persecution in one's home country
(D) Better educational institutions abroad

292. A software engineer moving from Bangalore, India, to Silicon Valley, USA, for a job is an example of:
(A) international migration.
(B) internal migration.
(C) forced displacement.
(D) seasonal mobility.

293. The push-pull framework in migration studies is primarily used to:
(A) calculate the exact number of migrants per year.
(B) enforce immigration laws and border controls.
(C) measure the economic impact of migration on the host country.
(D) analyze the causes and motivations behind migration.

294. According to the passage, a key characteristic that defines an act as migration is the:
(A) short distance of the move.
(B) intention to establish a new residence.
(C) crossing of an international border.
(D) temporary nature of the movement.

295. The availability of better employment opportunities in a major metropolitan area would be considered a:
(A) push factor for migration from that city.
(B) form of intervening obstacle.
(C) pull factor for migration to that city.
(D) consequence of internal displacement.

Direction : Please read the following source carefully.

The fields of environmental economics and demography are deeply intertwined, as demographic trends are significant drivers of environmental pressure. Rapid population growth, a key demographic concern, directly exacerbates the stress on environmental public goods such as clean water, forests, and a stable climate. A larger population requires more resources for subsistence and generates more waste and pollution, intensifying the market failures associated with externalities. The demographic process of migration, particularly rural-to-urban migration, leads to rapid urbanization. This concentrates populations in cities, which can lead to severe localized pollution, strain on infrastructure, and habitat destruction, thus increasing the urgency for effective environmental policy and the valuation of urban environmental amenities. Furthermore, changes in age structure, which can produce a demographic dividend, also have environmental consequences. The potential economic growth from this dividend often leads to increased consumption and industrial activity, which, without proper regulation and technological advancements, can accelerate environmental degradation. An integrated perspective suggests that addressing demographic challenges, for example through policies that influence fertility and migration patterns, can be a crucial long-term strategy for mitigating environmental problems and promoting sustainable development, complementing direct interventions like the Coasean bargaining or cost-benefit analysis of environmental projects.
Based on the above source, attempt the following five questions.

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costs
(C) Implementing policies that encourage higher fertility rates
(D) Increasing the retirement age to 75 years

285. The concept of a population's age structure is most directly related to the calculation of the:
(A) crude death rate.
(B) total fertility rate.
(C) dependency ratio.
(D) rate of natural increase.

Direction : Please read the following source carefully.

A life table is a powerful and concise statistical tool used in demography to summarize the mortality experience of a population. It presents a detailed picture of mortality patterns across different ages and allows for the calculation of life expectancy. A life table follows a hypothetical cohort of 100,000 live births (the radix) and traces their survival and death throughout their lifespan according to a specific set of age-specific death rates. Key columns in a life table include: `lx`, the number of individuals surviving to a given age x; `dx`, the number of individuals who die between age x and age x+1; and `qx`, the probability of dying between age x and age x+1. From these, one of the most important summary measures, life expectancy at age x (`ex`), can be calculated. Life expectancy at birth, denoted as `e0`, is a widely used indicator of a population's overall health and mortality conditions. There are two main types of life tables: the cohort (or generation) life table, which follows an actual birth cohort through time, and the period (or current) life table, which uses the mortality rates of a single year or a short period to construct a hypothetical mortality experience.

Based on the above source, attempt the following five questions.

286. The primary purpose of a life table is to:
(A) predict future birth rates.
(B) summarize the migration patterns of a population.
(C) measure the prevalence of disease in a cohort.
(D) analyze the age-specific mortality experience of a population.

287. In a life table, the term `e0` (e-nought) represents the:
(A) total number of deaths in the first year of life.
(B) probability of surviving from birth to age one.
(C) average number of years a newborn is expected to live.
(D) maximum age to which any individual in the cohort lives.

288. A period life table is constructed using:
(A) mortality data from a single, actual birth cohort followed over their entire lives.
(B) mortality data from a specific, short period of time applied to a hypothetical cohort.
(C) birth rate data from multiple consecutive years.
(D) migration data for a specific calendar year.

289. What does the `dx` column in a standard life table signify?
(A) The number of survivors at the beginning of an age interval
(B) The probability of surviving through an age interval
(C) The total number of years lived by the population
(D) The number of deaths within a specific age interval

290. The starting point of a life table, often a hypothetical 100,000 births, is known as the:
(A) radix.
(B) cohort.
(C) life expectancy.
(D) period.

Direction : Please read the following source carefully.

Migration is a fundamental component of population change, defined as the geographic movement of people across a specified boundary for the purpose of establishing a new permanent or semi-permanent residence. It is distinct from temporary movements like commuting or tourism. Demographers analyze migration in terms of its type, direction, and causes. A primary distinction is between internal migration (movement within a country, e.g., rural-to-urban) and international migration (movement across national borders).

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ANSWERS

1. (B) Non-rivalry in consumption and non-excludability

   Pure public goods are defined by two specific characteristics that differentiate them from private goods. Non-rivalry means that one person consuming the good does not reduce the amount available for others to use simultaneously. Non-excludability indicates that it is impossible or prohibitively expensive to prevent individuals from accessing the good once it is provided. These traits prevent market mechanisms from efficiently allocating such resources through pricing.

2. (C) Statement I is true, but Statement II is false.

   Market failure occurs when the price mechanism does not reflect the true social costs and benefits of production or consumption. While the first statement correctly defines this economic phenomenon, the second statement is incorrect regarding the impact of externalities. Positive externalities actually result in the underproduction of a good because the private market ignores the spillover benefits to society, unlike negative externalities which cause overproduction.

3. (C) Contingent Valuation Method

   Stated preference methods involve directly asking individuals to express their value for an environmental resource through surveys or experiments. This specific approach creates a hypothetical market to elicit the willingness to pay for a particular environmental improvement or the willingness to accept compensation for a loss. Unlike revealed preference methods that rely on actual market behavior, this technique can capture non-use values like existence or bequest values.

4. (D) Food supply

   The classical population theory developed by Thomas Malthus emphasizes the inherent tension between the rate of human reproduction and the capacity for resource production. It posits that human populations tend to grow at a geometric rate, while the production of food and other essential subsistence means only increases at an arithmetic rate. This disparity eventually leads to checks on population growth through famine, disease, or war.

5. (C) The incidence of disease and illness in a population

   In the field of demography, this term specifically identifies the frequency of disease, sickness, and various health impairments within a defined population group over a specific time period. It focuses on the prevalence and incidence of both acute and chronic conditions that affect the quality of life and physical well-being. This measure is distinct from mortality, which specifically refers to the occurrence of death.

6. (A) Both A and R are true and R is the correct explanation of A.

   This economic theorem posits that private parties can resolve the problem of externalities through direct negotiation without government intervention. The efficiency of this outcome is based on the critical assumption that transaction costs are either non-existent or minimal. Furthermore, it requires that property rights are clearly assigned to one of the parties. When these conditions are met, the resulting resource allocation remains socially optimal regardless of initial rights.

7. (D) A negative production externality

   An externality represents a cost or benefit that affects a third party who is not directly involved in a specific economic transaction. In this case, the pollution generated during the factory's manufacturing process creates a harmful impact on the fishing industry. Because this negative effect arises from the production side of the economy and is not reflected in the factory's costs, it is classified as such.

8. (A) It exclusively considers private costs and benefits, ignoring social impacts.

   Cost-Benefit Analysis is a systematic evaluation tool used to determine the economic feasibility of a project by comparing its total costs and

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25. (C) Cost-Benefit Analysis

This analytical framework requires the quantification of all impacts of a project or policy in monetary terms to facilitate a direct comparison. A major ethical and practical challenge in this process involves placing a financial value on human life, often calculated as the value of a statistical life. This valuation is necessary to measure the benefits of safety regulations or health interventions that reduce mortality risks for the general public.

26. (A) Per capita income

The optimum theory of population suggests that there is a specific population size that is most desirable for a country given its existing resources and technology. This ideal size is defined as the point where the per capita income of the population is maximized. If the population is smaller or larger than this level, the average income per person will be lower, indicating that the country is either underpopulated or overpopulated.

27. (D) It is a statistical table that shows the mortality experience of a hypothetical cohort.

A life table is a sophisticated demographic tool used to analyze the mortality and survival patterns of a population. It typically follows a hypothetical group of individuals, known as a cohort, from birth until the last member dies, based on a fixed set of age-specific death rates. This table allows researchers to calculate various vital statistics, most notably the average life expectancy at different ages within that population.

28. (B) Rate of natural increase

The natural growth of a population, excluding the effects of migration, is determined by the balance between births and deaths. This specific measure is calculated by subtracting the crude death rate from the crude birth rate. If the result is positive, the population is growing naturally; if it is negative, the population is naturally declining. It is usually expressed as a percentage or a rate per one thousand people.

29. (C) The impact of air quality on residential property prices.

Hedonic pricing is a revealed preference method used to estimate the economic value of environmental features that are not traded directly in markets. It operates on the premise that the price of a marketed good, such as a house, is influenced by its specific characteristics, including local environmental quality. By comparing property prices in areas with different pollution levels, researchers can isolate the financial premium individuals are willing to pay for cleaner air.

30. (B) P-3, Q-1, R-2, S-4

Demography utilizes specific indicators to track different population components. Fertility is measured by the total fertility rate, which estimates average births per woman. Mortality is represented by the infant mortality rate, focusing on deaths of children under one year. Morbidity uses prevalence rates to show the frequency of diseases. Finally, migration is analyzed through push and pull factors, which explain why people move between locations for social, economic, or environmental reasons.

31. (A) Property rights must be clearly defined and enforceable.

For private bargaining to successfully resolve externalities and achieve an efficient economic outcome, certain fundamental conditions must exist. The Coase theorem emphasizes that property rights must be well-defined so that all involved parties know who has the legal authority to control the resource. Additionally, transaction costs must be negligible, allowing parties to negotiate and reach agreements easily. These rights must also be enforceable to ensure that bargaining outcomes are upheld.

32. (A) Both Statement I and Statement II are true.

Public goods are defined by two essential characteristics that distinguish them from private market goods. Non-rivalry ensures that the benefit one individual derives from a good does not diminish the amount available for others, such as a scenic view. Non-excludability refers to the situation where it is not feasible or affordable to prevent individuals from using the good, even if they refuse to pay for it, which often leads to free-riding.

33. (A) Both A and R are true and R is the correct explanation of A.

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still retaining a net benefit. Unlike the strict Pareto criterion, this rule does not require that compensation actually takes place, focusing instead on potential improvement.

17. (C) Statement I is true, but Statement II is false.
The Coase theorem explains how private bargaining can lead to efficient resource allocation in the presence of externalities. The first statement is accurate because the assignment of property rights determines which party must pay or be paid during the negotiation process. However, the second statement is false because the theorem's validity depends entirely on transaction costs being zero or negligible. High costs prevent parties from reaching efficient agreements.

18. (A) Both A and R are true and R is the correct explanation of A.
Reproduction rates are used to measure the extent to which a generation of mothers is replacing itself with daughters. The gross reproduction rate only considers the number of female births per woman, assuming no mortality. In contrast, the net reproduction rate provides a more accurate demographic picture by accounting for the probability that these female children will survive from birth through the end of their own childbearing years.

19. (C) High life expectancy
The first stage of the demographic transition model is characterized by high birth rates and high, fluctuating death rates. This leads to very low or stagnant population growth over long periods. Because mortality is extremely high due to poor sanitation, frequent famines, and lack of medical knowledge, the average life expectancy at birth remains very low. Higher life expectancy only begins to emerge in later stages as healthcare and nutrition improve.

20. (D) Consumption is non-excludable and non-rivalrous for all passing vessels.
A lighthouse provides a classic illustration of a public good because of its specific consumption properties. It is non-excludable because it is impossible to prevent any ship in the vicinity from seeing the light and benefiting from its guidance. It is also non-rivalrous because the light consumed by one ship does not diminish the amount of light available for other vessels. These characteristics make it difficult for private markets to provide.

21. (A) 1 and 3 only
Environmental economics highlights how market failures occur when prices do not reflect the true value of resources. Many environmental assets are under-priced because they are not traded in traditional markets. Furthermore, positive externalities, such as the benefits others receive from one person's environmental protection efforts, represent a failure because the provider is not compensated. Conversely, the tragedy of the commons occurs specifically due to the lack of well-defined property rights.

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22. (B) Public good
The free-rider problem describes a situation where individuals consume a resource without paying for it, which typically occurs with goods that are non-excludable. Since it is impossible to prevent non-payers from accessing a public good, such as national defense or clean air, rational individuals have an incentive to avoid contributing to the cost. This lack of contribution leads to the market underproviding these essential goods and services.

23. (D) Average number of children a woman has during her reproductive years.
The total fertility rate is a standardized demographic measure used to estimate the completed family size of a hypothetical cohort of women. It is calculated by summing the age-specific fertility rates recorded for a specific year across all reproductive age groups, typically from fifteen to forty-nine. This indicator provides a clearer picture of population replacement trends than crude birth rates, as it remains unaffected by the population's age structure.

24. (A) 2, 4, 3, 1
The demographic transition model describes the shift from high vital rates to low vital rates as a society develops. It begins with high birth and death rates in the first stage. The second stage features falling death rates while birth rates remain high. The third stage follows with declining birth rates alongside low death rates. Finally, the fourth stage is characterized by low birth and low death rates, resulting in stability.

of stages that societies typically pass through as they develop. Stage one is characterized by high birth rates and high death rates, resulting in slow population growth. Stage two sees a dramatic fall in death rates due to improvements in public health and sanitation, while birth rates remain high, leading to a population explosion. In stage three, birth rates begin to decline. Finally, stage four is reached, where both birth and death rates are low, and population growth stabilizes or may even decline.

Based on the above source, attempt the following five questions.

271. According to the Malthusian theory, what is the nature of 'positive checks' on population?
(A) They are voluntary actions to reduce family size.
(B) They are factors that lower the birth rate.
(C) They are events like famine and disease that increase the death rate.
(D) They are technological advancements that increase the food supply.

272. The central argument of the Malthusian population theory is the imbalance between:
(A) urban population growth and rural population growth.
(B) geometric population growth and arithmetic subsistence growth.
(C) arithmetic population growth and geometric subsistence growth.
(D) population density and technological innovation.

273. The Theory of Demographic Transition describes a societal shift from:
(A) low birth/death rates to high birth/death rates.
(B) rural-based society to an urban-based society.
(C) agricultural economy to a service-based economy.
(D) high birth/death rates to low birth/death rates.

274. In which stage of the demographic transition does a 'population explosion' typically occur?
(A) Stage two, due to high birth rates and falling death rates.
(B) Stage one, due to high birth rates.
(C) Stage three, due to falling birth rates.
(D) Stage four, due to low death rates.

275. A key difference between the Malthusian theory and the Demographic Transition Theory is that the latter:
(A) predicts an inevitable crisis of overpopulation and famine.
(B) focuses solely on the role of 'positive checks' like war and disease.
(C) is a descriptive model of population change linked to socio-economic development.
(D) argues that population grows arithmetically while food supply grows geometrically.

Direction : Please read the following source carefully.

Demography employs several core concepts and measures to analyze population characteristics and changes. Three fundamental concepts are fertility, mortality, and morbidity. Fertility refers to the actual reproductive performance of a population or an individual, measured by the number of live births. It is distinct from fecundity, which is the physiological capacity to reproduce. The most common measure of fertility is the Crude Birth Rate (CBR), calculated as the number of live births in a year per 1,000 mid-year population. Mortality pertains to the occurrence of death within a population. Its primary measure is the Crude Death Rate (CDR), which is the number of deaths in a year per 1,000 mid-year population. The difference between CBR and CDR provides the rate of natural increase. Morbidity, on the other hand, relates to the incidence and prevalence of disease, illness, and injury in a population. It provides a picture of the overall health status of the population. Morbidity is often measured using an incidence rate (the number of new cases of a disease in a specific period) and a prevalence rate (the total number of cases of a disease, new and existing, at a specific point in time). These measures are crucial for public health planning and for understanding the quality of life beyond simple survival.

Based on the above source, attempt the following five questions.

276. Which demographic concept specifically refers to the actual number of live births within a population?

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The demographic dividend represents a period of potential economic acceleration that occurs during a specific phase of the demographic transition. As fertility rates decline, the share of the population in the younger, dependent age group decreases. This results in a temporary window where the working-age population is relatively large and the dependency ratio is low. If managed correctly through job creation and education, this can lead to rapid national growth.

34. (A) A political push factor
Migration is driven by various motivations categorized as either push or pull factors. Push factors involve negative conditions in an individual's current location that compel them to leave. Political instability, persecution, and lack of civil liberties are primary examples of such pressures. When a person flees their home country due to government volatility or conflict, they are responding to a political push factor in search of safety and stable institutions.

35. (C) Recreational sites like parks and beaches
The travel cost method is a revealed preference technique used to value environmental resources that do not have a direct market price. It is based on the assumption that the value of a site is reflected in the time and financial costs individuals incur to visit it. By analyzing these expenditures, economists can estimate the demand for and economic benefits provided by recreational locations such as national parks, forests, and coastal areas.

36. (B) 2 only
The net reproduction rate is a crucial demographic indicator because it accounts for the probability of female survival. An index of exactly one signifies that each generation of mothers is producing exactly enough daughters to replace themselves, leading to long-term population stability. Statement one is incorrect because the gross reproduction rate ignores mortality, and statement three is wrong because the total fertility rate is expressed per woman, not per one thousand people.

37. (C) Shared, unregulated resources are depleted by individual self-interest.
This economic concept describes a situation where individuals acting independently according to their own self-interest behave contrary to the common good of all users. When a resource is rival but non-excludable, such as an open pasture or international fishing grounds, each user has an incentive to maximize their own consumption. Without collective regulation or property rights, this behavior inevitably leads to the over-exploitation and eventual exhaustion of the shared resource.

38. (B) Pareto Criterion
This efficiency standard is used in welfare economics to evaluate a project or policy change. It is considered extremely restrictive because it stipulates that an action is only an improvement if it makes at least one individual better off without making any other person worse off. In reality, most policies involve some trade-offs where certain groups lose, leading to the development of alternative compensation tests that allow for potential gainers to offset losers.

39. (D) Average number of additional years a person of age x is expected to live.
In the structure of a life table, this specific value represents the mean number of years remaining for an individual who has already survived to a particular age. It is calculated by dividing the total number of years lived by the cohort from that age onwards by the number of people surviving to that age. While most commonly cited at birth, this measure can be determined for any age interval.

40. (A) Human actions like late marriage and celibacy that lower the birth rate.
Thomas Malthus proposed two types of checks that regulate human population growth when it exceeds the available food supply. Preventive checks are voluntary human behaviors that serve to reduce the birth rate before a crisis occurs. These include moral restraints such as delaying marriage, practicing celibacy, or choosing not to have children. By contrast, positive checks are involuntary events like famine and disease that increase the death rate after a population surplus.

41. (C) Stated Preference - Production Function Method

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behavior in related markets. In contrast, stated preference methods, such as contingent valuation and choice experiments, use surveys to ask individuals how they would behave in hypothetical scenarios. Because choice experiments rely on survey responses rather than observed market transactions, they are not considered a revealed preference method.

88. (B) geometric; arithmetic

Thomas Malthus famously argued that human population and the means of subsistence grow at different rates. He posited that population, if unchecked, increases in a geometric progression, such as doubling every generation. In contrast, he believed that the food supply can only increase in an arithmetic progression through the addition of new land or improvements in agriculture. This fundamental disparity leads to a situation where the population eventually exceeds the available food, resulting in natural checks.

89. (A) Morbidity relates to illness, while Mortality relates to death.

In the field of demography and public health, these two terms describe different aspects of a population's well-being. Morbidity refers to the prevalence and incidence of disease, injury, and disability among individuals. It focuses on the health status and quality of life. Mortality, on the other hand, specifically refers to the occurrence of death in a population. While they are related, they are measured using different indicators, such as incidence rates for sickness and death rates for fatalities.

90. (A) Both A and R are true and R is the correct explanation of A.

In the third stage of the demographic transition, a country experiences a significant shift in its natural population growth. Death rates have already fallen and remain low, but the birth rate now begins to decline significantly due to social and economic changes. Because the birth rate is still higher than the death rate, the population continues to increase. However, the closing gap between the two rates means that the overall pace of growth is slowing down.

91. (C) Average years a newborn lives if current mortality rates persist.

This demographic indicator is a summary measure of the mortality levels across all age groups in a population. It estimates the mean number of years a hypothetical infant would live if they were subjected to the age-specific death rates recorded in a specific year throughout their entire life. While it is often used as a general indicator of health and development, it does not predict the actual lifespan of any specific individual or future generation.

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92. (C) Hedonic Pricing

This revealed preference valuation method is based on the idea that the price of a marketed good, such as a house, is determined by its internal characteristics and external environmental factors. When an amenity like a public park or clean air is located nearby, it typically leads to an increase in property values. By analyzing these price differences, economists can isolate the economic value that homeowners place on the specific environmental benefit provided by the park.

93. (B) 2.1

Replacement-level fertility is the total fertility rate at which a population exactly replaces itself from one generation to the next, without migration. This value is typically estimated to be slightly above two children per woman. The extra one-tenth accounts for the fact that some children do not survive to their own reproductive years and that slightly more males are born than females. In countries with high mortality rates, the replacement level can be significantly higher than this standard estimate.

94. (B) Pareto Criterion

The Pareto criterion is a very strict standard for welfare improvements, as it requires that no one is made worse off by a change. To address this limitation, economists developed the Kaldor-Hicks compensation tests. These criteria suggest that a policy is an improvement if those who gain from it could theoretically compensate those who lose, even if the payment is not actually made. This allows for a more practical evaluation of social policies where some trade-offs are inevitable.

95. (B) Improvements in sanitation, public health, and food supply.

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49. (B) The presence of significant transaction costs.
The Coase theorem suggests that private bargaining can efficiently resolve externalities if property rights are well-defined. However, in the real world, the costs associated with negotiating, reaching, and enforcing such agreements are often very high. These transaction costs are particularly prohibitive when the externality affects a large number of people, such as air pollution from many factories affecting thousands of residents. This makes direct bargaining difficult and often necessitates government intervention to reach efficiency.

50. (A) Both Statement I and Statement II are true.
The infant mortality rate is a critical demographic and health indicator that measures the number of deaths of children under one year of age for every one thousand live births. Because infants are highly vulnerable to environmental and health stressors, this rate serves as a reliable proxy for a country's overall development level. A high rate typically reflects inadequate access to clean water, poor maternal nutrition, and a lack of basic healthcare services for the population.

51. (A) Both A and R are true and R is the correct explanation of A.
Determining the value of environmental resources is challenging because they are often considered non-market goods. Unlike private commodities, resources like clean air or scenic views do not have established prices generated by supply and demand in a traditional marketplace. Consequently, economists must utilize indirect valuation techniques, such as the travel cost method or hedonic pricing, to infer the economic worth individuals place on these assets based on their behavior or stated preferences in surveys.

52. (D) Incidence
In the study of morbidity, two primary measures are used to track the health status of a population. This specific term refers to the rate at which new cases of a particular disease or health condition occur within a defined population during a specific time period. It is a vital measure for understanding the risk of contracting a disease and for monitoring the effectiveness of health interventions aimed at preventing new infections or health problems.

53. (C) An increase in per capita income.
The optimum theory of population defines the ideal population size as the point where the average income per person is at its maximum. If a country's current population is below this optimum level, it is considered underpopulated. In such a situation, an increase in the number of people allows for better utilization of natural resources, improved division of labor, and greater economies of scale. These factors combined lead to an increase in the average per capita income.

54. (A) 2, 3, 1, 4
Environmental valuation methods are categorized by whether they observe actual market behavior or use hypothetical scenarios. Hedonic pricing and the travel cost method are revealed preference techniques because they rely on existing market data like property prices and travel expenditures. Conversely, contingent valuation and choice experiments are stated preference methods as they depend on individuals' responses to surveys about their willingness to pay for environmental goods. The sequence reflects a move from behavioral data to survey data.

55. (D) The number of persons surviving to the exact age x out of the original cohort.
In the construction of a life table, several columns are used to describe the mortality and survival experience of a hypothetical cohort. This specific notation represents the total number of individuals who are still alive at the precise moment they reach a particular age. It begins with a starting population, often one hundred thousand, and decreases at each age interval as deaths occur, eventually reaching zero when the last cohort member dies.

56. (A) Within the same country.
Migration is defined as the movement of people from one place to another for the purpose of establishing a new residence. This particular type of movement occurs when individuals or families relocate between different regions, provinces, or cities while remaining inside the borders of their own nation. Common examples include people moving from rural villages to urban centers in search of better job opportunities, education, or improved living standards and social services.

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57. (C) The potential for hypothetical bias in survey responses.

Contingent valuation is a stated preference method that uses surveys to estimate the value individuals place on environmental resources. A major criticism of this approach is that respondents may provide answers that do not reflect their actual behavior in a real market. Since no real money is exchanged during the survey, individuals might overstate their willingness to pay, a phenomenon known as hypothetical bias. This can lead to inaccurate estimates of an environmental resource's true value.

58. (A) Private markets underprovide national defense due to non-excludability.

Market failure occurs when a free market does not allocate resources efficiently. In the case of public goods like national defense, the characteristic of non-excludability means that once the service is provided, everyone benefits, regardless of whether they paid for it. This leads to the free-rider problem, where individuals have no incentive to pay, causing private firms to underprovide the good. This situation requires government intervention to ensure the public's needs are met through taxation.

59. (D) Cause-Specific Death Rate

Demographers use various mortality measures to understand the factors affecting a population's health. While the crude death rate provides a general overview, more detailed indicators focus on specific subgroups or causes. This particular rate is calculated by dividing the number of deaths attributed to a specific disease or condition by the total population. It allows health officials to identify major health threats and allocate resources effectively toward preventing and treating specific illnesses in a community.

60. (A) 1 and 2 only

Migration patterns are explained by the interaction of factors that either drive people away from their current home or attract them to a new one. Push factors are negative conditions like unemployment or persecution, while pull factors are positive attractions like better jobs or safety. Statement three is incorrect because job opportunities are a pull factor, not a push factor. Statement four is wrong because political persecution is a push factor that compels people to flee for safety.

61. (C) Each generation of mothers more than replaces itself with daughters.

The net reproduction rate is a crucial indicator of long-term population growth that accounts for both fertility and female mortality. When this rate is greater than one, it means that, on average, a cohort of women will produce more than one daughter who survives to childbearing age. This suggests that the population will continue to grow in the future. If the rate were exactly one, the population would eventually stabilize at its current size.

62. (D) Number of individuals in the working-age population (15-64).

The dependency ratio is an age-structure measure used to assess the potential social and economic pressure on the productive portion of a population. It is calculated by taking the number of people considered dependent, typically children under fifteen and adults over sixty-four, and dividing it by the number of people in the working-age group. A higher ratio indicates that each worker must support more non-working individuals, which has significant implications for healthcare and social security systems.

63. (A) It requires that no single individual is made worse off by the project.

This standard for evaluating economic changes is considered extremely restrictive because it demands that a project must benefit at least one person without causing any harm to anyone else. In the real world, almost every policy or project involves some groups losing while others gain. Because it is nearly impossible to implement changes that have no negative impacts, economists often use more flexible criteria that allow for the potential compensation of those who lose.

64. (B) NRR accounts for mortality among females during their childbearing years, while GRR does not.

Both indicators are used in demography to measure the extent to which a population is replacing itself. The gross reproduction rate

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represents the average number of daughters a woman would have if she survived through her reproductive years. The net reproduction rate is a more realistic measure because it factors in the likelihood that some females will die before or during their childbearing period. Consequently, the net reproduction rate is always lower than or equal to the gross rate.

65. (B) A positive production externality
An externality occurs when an economic activity has spillover effects on third parties who are not involved in the transaction. In this specific case, the beekeeper's activity of raising bees for honey production provides an unintended benefit to the neighboring orchard owner. Because the bees pollinate the apple trees and increase the crop yield without the orchard owner paying for the service, it is classified as a positive externality arising from the beekeeper's production process.

66. (A) P-2, Q-4, R-1, S-3
Several theories explain population dynamics and their economic impacts. Malthusian theory focuses on population growth exceeding the food supply. The optimum theory identifies the population size that maximizes per capita income. Demographic transition theory outlines the historical stages of changes in birth and death rates. Finally, the demographic dividend refers to the economic benefits realized when a country has a large working-age population relative to dependents. These frameworks are essential for understanding long-term demographic and economic trends.

67. (C) The birth rate begins to decline significantly.
In the third stage of the demographic transition, a society experiences a shift in its population growth pattern. While death rates remain low due to improved healthcare, the birth rate starts to fall. This decline is often driven by factors such as increased urbanization, better access to education for women, and the availability of family planning. As the gap between births and deaths narrows, the overall rate of natural population increase begins to slow down.

68. (C) Statement I is true, but Statement II is false.
The Coase theorem suggests that private individuals can efficiently resolve externalities if transaction costs are negligible. The first statement is correct because bargaining is much easier when only a few parties are involved. However, the second statement is false because the theorem actually argues that government intervention is often unnecessary for achieving efficiency. Instead, if property rights are well-defined, parties can negotiate a solution that maximizes total welfare without state-imposed taxes or regulations.

69. (A) Both A and R are true and R is the correct explanation of A.
Common-pool resources are characterized by a specific combination of economic properties that often lead to management challenges. Rivalry in consumption means that one individual's use of the resource, such as catching fish or harvesting timber, reduces the amount available for others. Simultaneously, non-excludability makes it difficult or costly to prevent people from accessing the resource, frequently resulting in over-exploitation if there is no regulation.

70. (B) Assessing how water quality affects the productivity and costs of a manufacturing firm.
The production function method is a revealed preference technique used to value environmental resources that serve as inputs for producing commercial goods. It calculates the economic value of an environmental change by observing its physical impact on the output levels or production costs of a firm. In this scenario, evaluating how changes in water quality influence the efficiency and profitability of a manufacturing process is a direct application of this valuation method.

71. (D) Moral restraint
Thomas Malthus identified two categories of checks that regulate human population growth when it outpaces the food supply. Positive checks are involuntary events that increase the death rate, such as war, famine, and disease. In contrast, preventive checks are voluntary human behaviors that reduce the birth rate. Moral restraint, which includes delaying marriage and practicing celibacy, is a key preventive check that Malthus advocated for individuals to use to manage population growth before a crisis.

72. (D) All of the above

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Cost-Benefit Analysis is a comprehensive evaluation tool used to determine the desirability of policies or projects. It involves quantifying all positive and negative impacts in monetary terms and using metrics like Net Present Value to assess feasibility. It also incorporates concepts like the Kaldor-Hicks criterion for evaluating social welfare changes. Furthermore, the framework often weights benefits equally across income groups unless specific adjustments are made, ensuring a systematic comparison of all project-related costs and benefits over time.

73. (C) The total number of existing cases of a disease at a specific point in time.

In health demography and epidemiology, this term describes the overall burden of a particular disease within a population. It measures the total number of people who have the condition at a specific moment, regardless of when they first became ill. This indicator is distinct from incidence, which only tracks new cases. It is essential for public health planning, as it helps determine the total resources needed for treatment and ongoing management of chronic illnesses.

74. (A) A high birth rate and a young population

A population pyramid's shape reflects the demographic history and current status of a nation. A very wide base indicates that there is a large number of children being born relative to the rest of the population. This broad base is a hallmark of high fertility rates and characterizes a young population with rapid growth potential. Over time, these individuals will move into the workforce, significantly impacting the country's social and economic planning requirements.

75. (D) Summarize the mortality experience and life expectancy of a population.

The life table is a sophisticated demographic model used to track the survival and death patterns of a hypothetical cohort from birth until death. Its primary purpose is to provide a comprehensive summary of a population's mortality rates at different ages. By analyzing these patterns, demographers can calculate the average life expectancy for individuals at various stages of life, which is a key indicator of the overall health and well-being of a nation.

76. (B) Non-rivalry

Public goods possess two distinct properties that differentiate them from private goods. One of these is a specific consumption characteristic where one person's enjoyment of the good does not reduce the amount or quality available for others. For example, many people can simultaneously enjoy a scenic view or clean air without interfering with each other's experience. This property makes it difficult for a market to establish a price based on scarcity, often leading to under-provision.

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77. (C) A worker from the Philippines moving to the UAE for a job.

Migration is classified based on whether the movement occurs within or across national borders. This specific type of movement involves individuals relocating from one country to another for various reasons, such as employment, education, or safety. When a person moves from their home nation to a different country to take a job, they are participating in international migration. This process involves legal regulations, such as visas, and often has significant economic and social impacts.

78. (D) Contingent Valuation Method

This stated preference method uses surveys to estimate the economic value individuals place on environmental resources that do not have a market price. It relies on respondents' answers to hypothetical questions about their willingness to accept financial compensation for an environmental loss or their willingness to pay for an improvement. By directly eliciting these values, economists can capture non-use values, such as existence value, which are not reflected in actual market behavior or traditional transactions.

79. (A) Edwin Cannan

The optimum theory of population was primarily advanced by this economist as an alternative to the Malthusian view. The theory suggests that for every country, there is a specific population size that is ideal given its resources and technology. At this optimum level, the per capita income of the population is maximized. If the population increases beyond or falls below this point, the average standard of living

will decrease, indicating overpopulation or underpopulation.

80. (B) Private cost and social cost

A negative externality arises when the production or consumption of a good imposes unintended costs on third parties who are not involved in the transaction. This situation causes a gap between the private cost incurred by the firm and the total cost borne by society. Because the market price does not reflect these external costs, the good is often overproduced, leading to an inefficient allocation of resources and a loss of overall social welfare.

81. (C) Significant investment in education and health for the young workforce.

Achieving a demographic dividend requires more than just a large working-age population; it necessitates that this workforce is productive and healthy. As fertility rates fall and the dependency ratio decreases, a nation has a temporary window to accelerate economic growth. To capitalize on this, the government must invest heavily in human capital by providing quality education and healthcare services. These investments ensure that the workforce has the skills and physical well-being necessary to drive development.

82. (B) lx - lx+1

In the construction of a life table, several columns are used to represent the mortality experience of a cohort. This specific value represents the number of deaths that occur between two consecutive age intervals. It is calculated by taking the number of people who survived to the beginning of the first age and subtracting the number of people who survived to the beginning of the next age. This measure helps demographers identify which ages carry the highest mortality risks.

83. (A) 4, 2, 1, 3

Demographic history typically follows a predictable sequence of stages related to vital rates and population structure. Societies usually begin with high birth and death rates in the first stage. This is followed by a decline in death rates in the second stage, causing rapid expansion. Later, as birth rates also fall, the country may experience a demographic dividend. Finally, as the population matures, it enters a stage of significant aging and low natural growth.

84. (B) Transaction costs involving billions of people and many nations are extremely high.

The Coase theorem suggests that private bargaining can resolve externalities efficiently if certain conditions are met. However, it is difficult to apply to global climate change because the problem involves almost everyone on Earth. The costs of negotiating, monitoring, and enforcing an agreement among billions of individuals and hundreds of sovereign nations are prohibitively high. These extreme transaction costs, combined with the difficulty of defining clear property rights to the atmosphere, make private bargaining an impractical solution.

85. (B) 2 and 3 only

Market failure for environmental resources is often a result of undefined property rights, which prevents efficient resource management. The Coase theorem highlights that for private bargaining to reach an efficient outcome, transaction costs must be zero. Statement one is incorrect because a public good is defined by non-rivalry and non-excludability. Statement four is also wrong because cost-benefit analysis actually aims to place monetary values on environmental impacts to allow for direct comparison with economic costs.

86. (B) 100,000 live births

The maternal mortality rate is a key health indicator that measures the number of women who die from pregnancy-related causes. Unlike many other mortality indicators that are expressed per one thousand individuals, this specific rate is typically reported for every one hundred thousand live births. This higher denominator is used because maternal deaths are relatively rare events in many populations, and the larger scale provides a more stable and comparable measure across different countries and time periods.

87. (A) Choice Experiment

Environmental valuation methods are classified into revealed preference and stated preference techniques. Revealed preference methods, like hedonic pricing and the travel cost method, estimate value by observing people's actual

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Environmental valuation methods are divided into revealed and stated preference categories. Revealed preference methods, like hedonic pricing and the travel cost method, rely on actual market transactions to infer value. Stated preference methods, such as contingent valuation, use surveys to ask about hypothetical scenarios. The production function method is actually a revealed preference technique because it observes how changes in an environmental resource physically affect the output and costs of commercially traded products.

42. (A) Well-defined property rights and market prices

Markets generally fail to allocate environmental resources efficiently because these assets often lack the fundamental characteristics required for a functioning market. Many environmental goods, like clean air or biodiversity, do not have clearly assigned property rights, making it impossible for owners to exclude others or charge for usage. Furthermore, because these resources are not traded in traditional markets, they lack explicit prices that signal their scarcity and value to consumers and producers.

43. (D) An aging and shrinking population

The shape of a population pyramid provides immediate insight into the demographic trends of a nation. A pyramid that is narrow at the base and wider in the older age groups indicates that birth rates have fallen significantly over several decades. This structure suggests that there are fewer young people to replace the older generations, leading to an increasing dependency on the working-age population and a likely long-term decrease in the total population.

44. (B) Perfect competition

Market failure occurs when the allocation of goods and services by a free market is not efficient, often leading to a net loss of social welfare. This typically happens in the presence of externalities, public goods, or information asymmetries. In contrast, perfect competition is a theoretical market structure that results in an efficient allocation of resources. Under perfect competition, prices perfectly reflect costs and benefits, and no single buyer or seller can influence the market.

45. (B) 2 and 3 only

Population theories explain how demographics change in relation to economic and social factors. The optimum theory posits that there is an ideal population size that maximizes per capita income. The demographic transition theory describes the historical shift from high vital rates to low vital rates across several stages. Malthusian theory is incorrectly summarized in statement one because it claims population grows geometrically and food arithmetically; statement five is wrong because famine is a positive check.

46. (D) Club good

Goods can be categorized by their specific consumption characteristics. When a good is non-rival, one person's consumption does not reduce the amount available for others. However, if it is also excludable, the provider can prevent individuals who do not pay from accessing the service. Examples of such goods include satellite television signals or private parks. These are distinct from public goods, which are non-excludable, and common resources, which are rivalrous in nature.

47. (A) Discounting

Cost-Benefit Analysis involves comparing the impacts of a project that occur at different points in time. Because people generally value a dollar today more than a dollar in the future, economists use a specific mathematical process to adjust future values. This technique converts future costs and benefits into their present-day equivalents using a discount rate. This allows for a fair comparison of all financial flows and helps determine the net present value of the investment.

48. (B) P-3, Q-4, R-1, S-2

The demographic transition model classifies population changes into distinct stages based on birth and death rates. The first stage features high rates for both, resulting in slow growth. The second stage sees death rates fall while births remain high, causing expansion. In the third stage, birth rates begin to decline, slowing the growth rate. Finally, the fourth stage is characterized by low birth and death rates, leading to stability.

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The second stage of the demographic transition is characterized by a rapid decline in mortality while birth rates remain high. This fall in death rates is primarily attributed to advancements in human welfare that occurred during the Industrial Revolution and later. Key factors include better nutrition from improved agricultural techniques, the development of vaccines and antibiotics, and public infrastructure projects that provided clean water and effective sewage disposal. These changes significantly increased the chances of survival for all ages.

96. (A) P-4, Q-1, R-2, S-3
A life table consists of several columns that provide a comprehensive view of a population's mortality experience. The number of deaths in an age interval is denoted by dx, while qx represents the probability of dying during that period. The number of survivors reaching a specific exact age is shown as lx. Finally, ex represents the average life expectancy, or the remaining years an individual at that age is expected to live based on current mortality rates.

97. (C) Optimum Theory of Population
This theory focuses on the relationship between population size and economic welfare. It posits that for any given set of resources and level of technology, there is an ideal population size that maximizes per capita income. A country is considered overpopulated if its population exceeds this point and underpopulated if it is below it. This approach differs from Malthusian theory by emphasizing the standard of living rather than just the biological limits of food production.

98. (C) Statement I is true, but Statement II is false.
Internal migration, particularly the movement of people from rural areas to cities, is a dominant demographic trend in many developing nations as individuals seek better economic opportunities. While migration can bring benefits, the second statement is false because it does not always have positive consequences. Migration can lead to brain drain in source regions and put excessive pressure on infrastructure and social services in destination areas, potentially creating social tensions and environmental challenges in rapidly growing urban centers.

99. (C) The presence of high levels of competition.
Market failure occurs when a free market does not achieve an efficient allocation of resources. This typically happens with environmental goods due to externalities, where the full costs of pollution are not paid by the polluter, or because the goods are public in nature and suffer from free-riding. Poorly defined property rights also prevent markets from functioning correctly. In contrast, high levels of competition are generally associated with market efficiency rather than failure, as competition drives prices toward marginal costs.

100. (B) There is a large number of children relative to the working-age population.
The youth dependency ratio is a demographic measure that compares the size of the population under fifteen to the working-age population aged fifteen to sixty-four. A high ratio indicates that a large proportion of children must be supported by a relatively smaller group of workers. This demographic structure often results from high birth rates and places significant demands on a nation's resources for education and healthcare, potentially limiting the funds available for other types of economic investment.

101. (B) 1, 2, 4, and 5
Non-rivalry in consumption occurs when one person's use of a good does not diminish the amount available for others. Examples include national parks, police services, and lighthouse signals, where multiple people can benefit simultaneously. Uncongested roads also exhibit this property until traffic levels increase. In contrast, a slice of pizza is a rival good because once one person eats it, it is gone. These characteristics are essential for distinguishing between public goods, club goods, and private commodities.

102. (A) The hypothetical starting population, usually 100,000 (l_0).
In the construction of a life table, the analysis begins with a fixed group of individuals, known as a cohort. This starting population is called the radix and is typically set at a round number like one hundred thousand to simplify the calculation of probabilities and survival rates. From this initial value, the table tracks the number of individuals who survive to each

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subsequent age, based on the specific mortality rates observed in the population being studied.

103. (B) Negative externality

An externality occurs when an economic activity impacts third parties who are not involved in the transaction. When the social cost, which includes the private cost to the producer plus the external costs borne by society, is greater than the private cost, a negative externality is present. Common examples include air and water pollution from factories. In these cases, the market price does not reflect the total damage caused, leading to overproduction and an inefficient outcome for society.

104. (B) Malthusian Theory

Thomas Malthus famously argued that human population tends to grow more rapidly than the food supply. He predicted that without voluntary preventive checks, such as moral restraint, the population would eventually be controlled by what he called positive checks. These are involuntary events like famine, epidemics, and warfare that increase the death rate and bring the population back in line with the available resources. This cycle of growth and crisis is often referred to as the Malthusian trap.

105. (A) The loss of skilled and educated individuals from a source country.

Migration can have significant economic impacts on both the origin and destination regions. This specific term refers to a phenomenon where highly trained and talented people, such as doctors, engineers, and scientists, move from their home country to another nation in search of better opportunities. While this provides benefits to the receiving country, it can deplete the human capital of the source country, potentially hindering its long-term development and the quality of its public services.

106. (D) Intangible cost

Cost-Benefit Analysis involves identifying and quantifying all impacts of a project, but some effects are difficult to measure in monetary terms. The loss of a natural habitat or the destruction of scenic beauty are examples of impacts that do not have a market price. These are classified as intangible costs because, while they represent a real loss to social welfare, assigning them a precise financial value is complex and often relies on subjective or indirect valuation methods.

107. (A) Both A and R are true and R is the correct explanation of A.

The Coase theorem suggests that private bargaining can resolve externalities efficiently, but it is rarely practical for large-scale environmental problems. When pollution affects millions of people across many regions, the costs associated with identifying all parties, negotiating an agreement, and enforcing it are prohibitively high. Furthermore, individual victims have an incentive to free-ride on the efforts of others. These high transaction costs and collective action problems make private bargaining an ineffective solution for regional or global pollution.

108. (C) Total Fertility Rate (TFR)

Demographers use various measures to track birth patterns, but some are more refined than others. The crude birth rate is influenced by the proportion of the population that is of reproductive age. In contrast, the total fertility rate is an age-standardized measure that estimates the average number of children a woman would have in her lifetime based on current age-specific rates. This makes it a superior indicator for comparing fertility levels across different populations with varying age structures.

109. (C) Stationary, resembling a column or rectangle.

In the fourth stage of the demographic transition, a country has low birth rates and low death rates, resulting in a stable or slow-growing population. The age-sex pyramid for such a nation typically has a rectangular or columnar shape, with roughly equal proportions of people in the young and middle-age groups. The pyramid only tapers significantly at the very top due to mortality at older ages. This structure reflects a balanced age distribution and a low rate of natural increase.

110. (B) Site value is reflected in the time and money spent to visit it.

The travel cost method is a revealed preference technique used to value environmental resources that are not traded in markets. It operates on the principle that the value individuals place on a

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recreational site can be inferred from the costs they incur to access it, including transportation expenses and the opportunity cost of their time. By analyzing these expenditures, economists can estimate a demand curve for the site and determine its total economic benefit to the public.

111. (D) Net Reproduction Rate (NRR)
This demographic measure is used to determine whether a population is replacing itself from one generation to the next. It calculates the average number of daughters that a cohort of newborn females would have, factoring in both fertility rates and the likelihood of survival through their childbearing years. A rate of exactly one indicates that the population is exactly replacing itself, while a rate higher or lower suggests future growth or decline, respectively.

112. (B) Low birth rate and low death rate
The demographic transition model describes the historical shift in population dynamics as a country develops economically and socially. In the final stage, both fertility and mortality reach low levels. The birth rate falls due to factors like urbanization and family planning, while the death rate is kept low by modern healthcare and nutrition. As a result, the population stabilizes or grows very slowly, and the age structure typically becomes more balanced or shifts toward older age groups.

113. (A) 1 and 2 only
Environmental valuation methods are divided into categories based on the source of their data. Stated preference methods, such as contingent valuation, rely on individuals' responses to hypothetical questions about their willingness to pay. Revealed preference methods, like hedonic pricing and the travel cost method, use data from actual market behavior to infer values. Statements three and four are incorrect because they misclassify hedonic pricing as stated preference and contingent valuation as a revealed preference technique.

114. (C) Non-excludability
Public goods are defined by specific properties that make it difficult for private markets to provide them. One key characteristic is the inability to prevent individuals from accessing or benefiting from the good once it has been produced. For example, if a river is cleaned, everyone who lives nearby benefits from the improved environment, regardless of whether they contributed to the cleanup costs. This situation often leads to free-riding, where individuals enjoy the good without paying for it.

115. (A) 3, 1, 2
The history of population theory is marked by the contributions of several key thinkers over different centuries. Thomas Malthus published his influential essay on population in the late eighteenth century. Edwin Cannan developed the optimum theory of population in the early twentieth century. Later, researchers like Warren Thompson and Frank Notestein formalized the theory of demographic transition in the mid-twentieth century. This sequence reflects the evolution from concerns about food scarcity to a focus on economic welfare and vital rates.

116. (A) P-3, Q-2, R-1, S-4
Economic goods are classified based on the criteria of rivalry and excludability. Private goods are both rival and excludable, meaning consumption is exclusive. Public goods are non-rival and non-excludable, allowing shared access. Common resources are rival but non-excludable, which often leads to depletion. Club goods are non-rival but excludable, typically requiring a membership or fee for access. This classification helps in understanding market behavior and why certain goods require government intervention to ensure their efficient and fair provision.

117. (B) It underestimates the impact of technological progress on food production.
Thomas Malthus famously predicted that population growth would inevitably outpace food production, leading to crisis. However, critics point out that he failed to foresee the massive improvements in agricultural productivity brought about by the Industrial and Green Revolutions. Technological advancements in machinery, fertilizers, and genetics have allowed food production to increase much faster than Malthus's arithmetic progression. This has enabled the global population to grow significantly without experiencing the

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179. (C) Cost-Benefit Analysis

This analytical framework is used to evaluate the social desirability of a project or policy by comparing its total benefits and costs. A compensation test, such as the Kaldor-Hicks criterion, is a key component of this process. It determines if a project is an improvement by asking if those who benefit gain enough to theoretically compensate those who are disadvantaged. This allows the analysis to move forward even when a project creates both winners and losers, focusing on net social gain.

180. (C) Internal migration

Migration is the process of people moving to a new location to establish residence. When this movement takes place within the geographic borders of a single country, it is classified as internal. A very common form of this in developing nations is the movement from rural areas to urban centers as individuals seek better employment and social opportunities. This process affects the population distribution and age structure of both the source and destination regions without changing the country's total population.

181. (A) 1, 2, 3, and 4

Environmental valuation involves different techniques based on the type of data available. The travel cost and hedonic pricing methods are revealed preference techniques that use actual market behavior. Contingent valuation is a stated preference method that uses surveys but is prone to hypothetical bias. The production function method treats environmental quality as a production input. Statement five is incorrect because the very reason these methods exist is that environmental goods typically lack standard market prices for direct valuation.

182. (C) Regardless of the initial allocation of property rights.

This economic theorem suggests that private individuals can efficiently resolve externalities if transaction costs are negligible. The key insight is that as long as property rights are clearly defined and bargaining is possible, the parties will negotiate a solution that maximizes total social welfare. This efficient outcome is achieved no matter which party was originally given the legal rights. However, the initial assignment does determine which party must pay the other during the negotiation process, thus affecting their relative wealth.

183. (B) General Fertility Rate

Demographers use various measures to track the frequency of births in a population. While the crude birth rate compares births to the total population, this specific rate is more refined because it only focuses on the group of people actually capable of giving birth. By dividing the number of births by the number of women in the reproductive age range, usually fifteen to forty-nine, this measure provides a more accurate reflection of a population's current reproductive performance and fertility levels.

184. (B) A reduction in unemployment pressure

Migration can have significant social and economic consequences for the region that people are leaving. While the loss of skilled workers, known as brain drain, is a negative impact, migration can also provide benefits. In areas with high population density and limited jobs, the departure of individuals can reduce the competition for local resources and ease the pressure on the labor market. This can lead to lower unemployment rates and a decrease in the demand for government social services.

185. (A) Gives less weight to future benefits and costs.

Cost-Benefit Analysis involves adjusting future financial flows to their present-day value to allow for a direct comparison. The discount rate represents the rate at which society is willing to trade off current consumption for future benefits. A higher discount rate means that values in the distant future are reduced more significantly when converted to present terms. Consequently, projects with costs today and benefits far in the future appear less desirable when a higher discount rate is applied to the analysis.

186. (B) Physiological capacity to reproduce.

In the study of demography, it is important to distinguish between potential and actual reproductive behavior. This specific term refers to the biological ability of an individual, a couple, or a population to have children. It represents the maximum possible level of reproduction that could occur if no birth control or social

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the total number of births each year exactly equals the total number of deaths, resulting in a growth rate of zero. This model is often used as a baseline in life table analysis.

126. (B) The private market efficiently provides pure public goods.

Market failure describes situations where the free market does not achieve an efficient allocation of resources. This is common with public goods because their characteristics of non-excludability and non-rivalry lead to the free-rider problem. Since individuals can benefit from a public good without paying for it, private firms have no profit incentive to provide them in sufficient quantities. Consequently, the second statement is incorrect, as public goods typically require government intervention or collective action to be provided efficiently.

127. (B) A group of people who experience the same demographic event in a particular period.

In demography, researchers often track specific groups of individuals to study changes over time. This term refers to people who share a common characteristic or experienced a specific event during the same time interval. The most common example is a birth cohort, which consists of all individuals born in a specific year. By following these groups, demographers can analyze trends in mortality, fertility, and migration as that specific generation moves through different stages of life.

128. (B) The benefits are 1.5 times the costs.

This indicator is a key metric used in Cost-Benefit Analysis to evaluate the economic efficiency of a project. It is calculated by dividing the total discounted benefits by the total discounted costs. A ratio of one point five means that for every dollar spent on the project, society receives benefits valued at one dollar and fifty cents in present terms. Any project with a ratio greater than one is generally considered to be economically viable and socially desirable.

129. (C) The optimum population

This concept identifies the ideal population size for a country based on its available resources and current technology. It is defined as the point where the average income per person is at its maximum level. If a country has fewer people than this, it is considered underpopulated and cannot fully exploit its resources. If it has more, it is overpopulated, leading to a decline in per capita income. This theory emphasizes maximizing economic welfare for all citizens.

130. (A) Both A and R are true and R is the correct explanation of A.

The travel cost method is a revealed preference technique that estimates the value of environmental sites by analyzing visitors' actual expenditures. Because this method depends on observing physical behavior—specifically, people traveling to and using a site—it is limited to measuring use values. It cannot capture non-use values, such as existence value or bequest value, because these values do not involve any observable market transactions or physical interaction with the environmental resource in question.

131. (C) Age and sex distribution

This graphical tool provides a clear visual representation of a population's composition at a specific point in time. It typically consists of two back-to-back bar graphs, with one side showing the number of males and the other showing females in different age groups. The overall shape of the pyramid reveals important information about a country's history of fertility, mortality, and migration, as well as its future growth potential and current dependency ratios for social planning.

132. (A) Actual observable choices and market behavior

Environmental valuation methods are distinguished by the data they use to estimate the value of non-market goods. Revealed preference methods, such as the travel cost method and hedonic pricing, rely on information from actual transactions in related markets. These methods observe what people really spend or do to infer the value they place on an environmental amenity. In contrast, stated preference methods use surveys to ask people about their choices in hypothetical scenarios, rather than observing real actions.

133. (A) 1, 3 and 4

Fertility measures differ in their precision and what they account for. The general fertility rate

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is more refined than the crude birth rate because it focuses on women of reproductive age. The net reproduction rate is always lower than the gross rate because it factors in female mortality. Statement two is incorrect because the total fertility rate is designed to be independent of age structure. Finally, a rate of two point one is widely accepted as the replacement level in developed nations.

134. (A) Money sent by migrants to their families in the source country.

Migration has significant financial impacts, especially for developing nations. This term refers to the portion of a migrant's earnings that is sent back to their home country to support their family. These financial transfers can represent a substantial part of the source country's national income and play a vital role in reducing poverty and improving the living standards of the recipients. They often provide families with better access to education, healthcare, and basic needs.

135. (B) The total person-years lived by the cohort from age x until the last member dies.

In the construction of a life table, this column represents a cumulative measure of survival for a cohort. It is calculated by summing the person-years lived in all age intervals from age x through the final age group. This value is essential for determining life expectancy, as it represents the total remaining lifespan for all individuals who have survived to the beginning of that specific age. It reflects the collective time lived by the surviving population.

136. (C) P-3, Q-1, R-2, S-4

Various market failures are illustrated by specific social and economic scenarios. The free-rider problem involves individuals benefiting from public services without contributing to their costs. The tragedy of the commons describes the depletion of shared resources through individual self-interest. Negative externalities occur when production costs are shifted to third parties without compensation. Information asymmetry involves transactions where one party possesses superior knowledge, often leading to market inefficiencies such as the sale of defective products without full disclosure.

137. (C) Stage 3

The demographic dividend is a period of potential economic growth that results from a shift in a population's age structure. This opportunity typically begins during the third stage of the demographic transition, as birth rates start to decline significantly. The falling fertility rate leads to a smaller number of young dependents, which, combined with the large workforce from previous high-fertility generations, results in a low dependency ratio and a temporary window for increased productivity and investment.

138. (C) Hedonic Pricing Method

This revealed preference technique is used to estimate the economic value of environmental characteristics by observing their impact on related markets. It is most commonly applied to the housing market, based on the assumption that a home's price reflects both its physical attributes and local environmental quality. By comparing the prices of similar properties in different locations, economists can determine how much of the value is attributed to amenities like clean air, proximity to parks, or noise reduction.

139. (B) It suggests that efficiency can be achieved regardless of who holds the property rights, as long as they can bargain.

This economic theorem provides an alternative to government regulation for resolving externalities. It posits that if property rights are clearly defined and transaction costs are negligible, private parties can negotiate an efficient outcome. The key insight is that the final allocation of resources will be the same regardless of who was initially given the rights. However, the initial assignment does affect the wealth of the parties, as it determines who must pay for the adjustment.

140. (B) Mortality of a group born in the same year until all have died.

There are two main ways to construct a life table. This specific type, also known as a generation life table, follows a real group of individuals born during the same time period throughout their entire lives. It records their actual deaths at each age until the last member of the group has passed away. While this provides an accurate historical record of mortality for that specific

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cohort, it requires many decades of data to complete.

141. (B) Theory of Demographic Transition
This theory explains the historical process of population change that occurs as a society develops economically and socially. It outlines a transition from a state of high birth and death rates to a state where both are low. This shift typically happens in several stages, beginning with declining mortality followed by a decline in fertility. The result is a change from a stable, slow-growing population to a period of rapid growth and eventually back to stability.

142. (B) Old-age dependency ratio
The dependency ratio is a demographic indicator that compares the non-working population to those in the productive age group, usually defined as fifteen to sixty-four years. When a population pyramid shows a significant concentration of individuals in the older age brackets relative to the working-age population, it indicates a high burden on the workforce. This specific measure helps policymakers plan for future pension expenditures, geriatric healthcare needs, and other services for the elderly population.

143. (D) Ensuring equitable distribution of benefits.
Cost-Benefit Analysis is primarily a tool for evaluating the overall economic efficiency of a project or policy. It involves identifying all impacts, converting them to monetary values, and discounting them to compare present worth. While policymakers may consider fairness and equity when making a final decision, these factors are not essential technical components of the analysis itself. The primary objective is to determine if total social benefits exceed total social costs, regardless of who receives them.

144. (C) Statement I is false, but Statement II is true.
Public goods are defined by two specific characteristics: non-rivalry and non-excludability. The first statement is incorrect because rivalry and excludability are the defining traits of private goods, not public ones. The second statement is correct, as clean air is a classic example of a pure public good. It is non-rival because one person breathing does not reduce the air available for others, and non-excludable because it is impossible to prevent someone from breathing it.

145. (C) Morbidity
In demography and epidemiology, different terms are used to track the health status of a population. These two specific measures focus on the occurrence of illness and disease. Incidence tracks the number of new cases that appear during a certain period, while prevalence measures the total number of existing cases at a specific point in time. Together, they provide a comprehensive view of the burden of disease in a community, which is distinct from measures of birth or death.

146. (B) Shared grazing land is depleted by herders acting in self-interest.
This economic concept describes the over-exploitation of a common resource due to the lack of private property rights or effective regulation. When a resource is rivalrous but non-excludable, such as a community pasture, each individual user has an incentive to maximize their own benefit. Because the negative impact of over-grazing is shared by everyone while the benefit of adding another animal is kept by the individual, the collective resource is eventually exhausted and ruined for everyone.

147. (C) Decline
The net reproduction rate is a crucial indicator of a population's long-term growth potential. It represents the average number of daughters that a cohort of newborn females will have, accounting for the fact that some will not survive to their own childbearing years. When this rate falls below one, it means that each generation of mothers is not fully replacing itself. In the absence of immigration, this trend will eventually lead to a sustained decrease in the total population size.

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148. (C) Both use and non-use values
Contingent valuation is a stated preference method that uses surveys to estimate the total economic value of an environmental resource. Because it creates a hypothetical market through questionnaires, it can capture the value people place on actually using the resource, such as visiting a forest. More importantly, it can also estimate non-use values, such as existence value,

where people are willing to pay just to know that a species or ecosystem is being preserved for the future.

149. (A) Immigration is movement into a country, while emigration is movement out of a country.
Migration is the process of people moving to a new location to establish residence. When discussing movement across national borders, two distinct terms are used to describe the direction of travel. One term refers to people arriving in a new country to settle, while the other refers to people leaving their home country to live elsewhere. The difference between these two flows determines the net migration rate, which is a key component of total population change.

150. (A) Both A and R are true and R is the correct explanation of A.
The demographic dividend represents a period of potential economic acceleration that occurs during a specific phase of the demographic transition. As fertility rates decline, the share of the population in the younger, dependent age group decreases. This results in a temporary window where the working-age population is relatively large and the dependency ratio is low. If managed correctly through job creation and education, this can lead to rapid national growth by increasing the proportion of productive workers.

151. (A) 1, 2, 3, and 5
Environmental goods often lack the characteristics needed for a standard market to function efficiently. They are typically non-excludable and non-rival, which leads to market failure and the need for non-market valuation. Their use frequently involves externalities, such as pollution, and they generally do not have an explicit market price. Statement four is incorrect because these very characteristics are why private markets usually fail to provide environmental goods at an optimal or efficient level without intervention.

152. (D) Celibacy
Thomas Malthus identified two types of checks that limit population growth when it exceeds the food supply. Positive checks are involuntary factors that increase the death rate, such as famine, war, and epidemics. In contrast, preventive checks are voluntary human behaviors that decrease the birth rate. Celibacy, along with late marriage and moral restraint, is a key preventive check. Malthus advocated for these voluntary measures to avoid the suffering caused by the natural and more painful positive checks on population.

153. (A) The mortality rates prevailing in a population during a short period of time, such as a single year.
A life table is a demographic model used to analyze survival patterns, but it can be constructed in two different ways. This specific type, also known as a cross-sectional life table, is the most common. It uses the age-specific death rates recorded for a real population during a specific point in time to describe the mortality experience of a hypothetical cohort. This allows demographers to estimate current life expectancy without having to follow a group for many decades.

154. (A) The choice of the discount rate.
Cost-Benefit Analysis involves comparing financial impacts that occur at different times. This process becomes difficult when there is a large time gap between the costs and the benefits, as seen in projects like dams or climate change mitigation. The rate used to convert future values into present-day terms determines how much weight is given to the welfare of future generations. A low rate values the future more highly, while a high rate prioritizes the present generation's costs.

155. (C) Infant Mortality Rate (IMR)
Demography uses various indicators to measure different vital events in a population. While fertility measures like the total fertility rate track births, and migration measures track movement, mortality indicators focus on the frequency of death. The infant mortality rate specifically measures the number of deaths of children under one year of age per one thousand live births. It is considered a very sensitive indicator of a population's overall health status, nutrition, and the quality of its medical and social services.

156. (A) Regardless of the initial assignment of property rights.

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This economic theorem suggests that private individuals can efficiently resolve externalities if transaction costs are negligible. The key insight is that as long as property rights are clearly defined and bargaining is possible, the parties will negotiate a solution that maximizes total social welfare. This efficient outcome is achieved no matter which party was originally given the legal rights. However, the initial assignment does determine which party must pay the other during the negotiation process.

157. (C) High birth/death rates to low birth/death rates.

This demographic theory describes the historical process where a society's population dynamics change as it undergoes industrialization and economic development. It typically involves a shift from a pre-industrial stage with high fertility and mortality to a modern stage where both rates are low. This transition leads to a significant increase in the total population size during the middle stages, as death rates fall before birth rates, and results in a more stable age structure at the end.

158. (C) Valuing the recreational benefits of a national park.

The travel cost method is a revealed preference technique designed specifically for valuing sites where people go for recreation. It is based on the assumption that the value of the experience can be inferred from the time and money individuals spend to get there. Because national parks do not have a traditional market price but require significant travel expenses for many visitors, this method is ideal for estimating the total economic benefit these environmental resources provide.

159. (B) The number of women of child-bearing age.

Fertility measures track the frequency of births in a population, but they use different denominators. The crude birth rate is a simple measure that relates total births to the entire population. In contrast, the general fertility rate is more refined because it only compares births to the group of people actually capable of giving birth—specifically women in their reproductive years, usually defined as fifteen to forty-nine. This makes it a more accurate reflection of reproductive performance.

160. (B) High birth rates and a large young population.

A population pyramid's shape provides immediate visual evidence of a nation's demographic trends. A pyramid that has a very broad base and tapers rapidly toward the top is described as expanding. This shape indicates that there are high fertility rates and a large number of children being born relative to the older population groups. Such a structure is typical of developing countries and suggests that the total population will grow rapidly as these young cohorts age.

161. (C) Morbidity

Population dynamics are driven by three main demographic processes: fertility, mortality, and migration. Migration refers to the movement of people between locations, which can be internal or international and often involves rural-to-urban shifts. In contrast, morbidity is a term from health demography that refers to the incidence and prevalence of disease and illness within a population. It describes the health status of a group rather than the physical movement of people from one place to another.

162. (A) The winners could compensate the winners and still be better off.

This compensation criterion is used in welfare economics to determine if a policy change improves social efficiency. It is more flexible than the strict Pareto criterion because it allows for changes where some people lose, provided that those who gain receive enough benefit to theoretically compensate the losers. The core idea is that the total social gain is large enough to make everyone better off if the surplus were redistributed, even if that redistribution does not actually take place.

163. (B) The economy's capacity to productively employ the larger workforce.

The demographic dividend represents a temporary opportunity for accelerated economic growth when a country has a large working-age population relative to dependents. However, this potential gain is not guaranteed simply by having a favorable age structure. To realize the dividend, the nation must have stable institutions and a flexible labor market capable of creating enough jobs for the expanding workforce. Without productive employment, the large group of

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working-age individuals could lead to economic stagnation or social instability.

164. (B) Rival and non-excludable
This economic concept describes a specific type of market failure involving resources that anyone can access but whose supply is limited. Because the resource is non-excludable, it is difficult to prevent people from using it. Because it is rival, one person's consumption reduces the amount available for others. Without regulation or property rights, individual users act in their own self-interest, leading to over-consumption and the eventual depletion of the shared resource, which harms everyone in the long run.

165. (D) 2, 3, and 4
Population theories explain how demographic changes relate to economic and social factors. The demographic transition theory describes the historical shift from high to low vital rates across stages. Malthusian theory focuses on checks that regulate population growth, including voluntary preventive checks and involuntary positive checks. The optimum theory suggests that there is an ideal population size that maximizes per capita income, meaning a country can be under-populated. Statement one is incorrect because Edwin Cannan, not Malthus, proposed the optimum theory.

166. (A) Radix
In the construction of a life table, demographers begin their analysis with a hypothetical group of newborn individuals known as a cohort. The initial size of this group is called the radix and is typically set at a round number, such as one hundred thousand, to make the calculation of survival probabilities easier to understand and compare. The table then tracks how many of these individuals remain alive at each subsequent age as they are subjected to specific mortality rates.

167. (A) A person's loud music disturbing neighbors.
An externality occurs when an economic activity impacts a third party who is not involved in the transaction. This specific type arises from the consumption side of the economy. When an individual consumes a good or service, such as listening to loud music, it may impose an unintended cost on others, like noise pollution that reduces the well-being of neighbors. Because the person playing the music does not compensate the neighbors for this disturbance, it is classified as such.

168. (A) P-2, Q-4, R-1, S-3
Demography utilizes specific indicators to measure different aspects of population change. The crude birth rate and crude death rate relate the annual number of births and deaths to every one thousand people. The infant mortality rate specifically tracks the deaths of children under one year of age per one thousand live births. Finally, the total fertility rate is a standardized measure that estimates the average number of children a woman will have throughout her entire reproductive lifespan.

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169. (B) Transaction costs
The Coase theorem suggests that private bargaining can resolve externalities if property rights are well-defined. However, in practice, the process of negotiating and enforcing agreements is often expensive and time-consuming. These transaction costs are a major obstacle, especially when an externality like air pollution affects a large number of people. It becomes difficult to identify all parties, coordinate their interests, and reach a consensus, making private bargaining an ineffective solution for complex environmental problems without government intervention.

170. (C) Statement I is true, but Statement II is false.
A country's age structure is a vital demographic characteristic that shapes its social and economic priorities. A youthful population requires massive investment in education and maternal health, while an aging population places pressure on pension systems and geriatric care. Therefore, the second statement is false because these two demographic profiles present very different economic challenges. A nation must tailor its policies to its specific age distribution to ensure long-term stability and to meet the diverse needs of its citizens.

171. (C) Non-use value (or existence value)
Environmental resources provide different types of economic value to people. Use value is derived from physical interaction, such as visiting a park. However, many people are willing to pay for environmental protection even if they never

plan to visit the area or see the species. This is known as existence value, a type of non-use value. It reflects the satisfaction individuals get from simply knowing that a rare species or a pristine ecosystem continues to exist for its own sake.

172. (C) Sickness and disease rates
In health demography, it is essential to distinguish between the occurrence of death and the occurrence of illness. While mortality refers specifically to death rates, this term pertains to the prevalence and incidence of disease, injury, and disability within a population. It describes the overall health status and quality of life of individuals. Monitoring these rates is vital for public health planning, as it helps determine the total burden of illness and the medical resources needed for a community.

173. (B) The working cohort retires, raising the dependency ratio.
The demographic dividend is a temporary economic advantage that occurs when a large proportion of a country's population is in the working ages. This window opens as fertility rates fall, reducing the youth dependency ratio. However, the window eventually closes when the members of these large working-age cohorts grow old and transition into retirement. This shift leads to an increase in the old-age dependency ratio, placing new pressures on social security and healthcare systems while reducing the relative size of the workforce.

174. (C) Contingent Valuation
This stated preference method is used to estimate the economic value of environmental resources that are not traded in traditional markets. It involves surveying individuals and asking them hypothetical questions about their willingness to pay for an environmental improvement or their willingness to accept compensation for a loss. By directly eliciting these preferences through questionnaires, economists can estimate values for assets like clean air or biodiversity that lack observable market prices or related behavioral data.

175. (A) Both A and R are true and R is the correct explanation of A.
Private markets often fail to provide the socially optimal amount of public goods because of their unique properties. Since public goods are non-excludable, it is impossible to prevent someone who hasn't paid from using them. This leads to the free-rider problem, where individuals have no incentive to contribute to the cost of provision. Because rational consumers hope to benefit without paying, private firms cannot generate enough revenue, resulting in the under-provision or complete absence of these essential services.

176. (D) Economic stagnation
The demographic transition model describes the historical process of population change in several distinct stages. These include the high stationary stage with high birth and death rates, the early expanding stage with falling death rates, the late expanding stage where birth rates also fall, and the low stationary stage where both rates are low. While economic factors influence these transitions, the term economic stagnation is not used as a name for any of the specific demographic stages within the formal theory.

177. (C) Causes of death at various ages.
The life table is a sophisticated demographic tool used to represent the mortality and survival experience of a cohort. It provides detailed data on the probability of dying, the number of survivors at each age, and the average life expectancy for individuals at different stages of life. However, it is a mathematical summary of overall mortality rates and does not typically include information about the specific medical or external reasons for why individuals in the population are dying.

178. (B) The relationship between population size and economic welfare (per capita income).
This population theory focuses on identifying the most desirable population size for a country based on its economic goals. It suggests that there is an ideal point where the available resources and technology are utilized most efficiently, resulting in the highest possible average income per person. If the population is too small or too large, the standard of living will be lower. This approach moves beyond the Malthusian focus on food scarcity to a broader view of economic well-being.

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widespread Malthusian catastrophes he had initially envisioned.

118. (A) A project is desirable if NPV > 0.
In Cost-Benefit Analysis, the net present value is a fundamental indicator used to determine the economic viability of a project. It is calculated by subtracting the total discounted costs from the total discounted benefits. If the resulting value is positive, it signifies that the project's total benefits exceed its total costs in present terms, making it a desirable investment for society. This decision rule helps policymakers prioritize projects that provide the greatest net welfare gain.

119. (B) Job creation to absorb the large working-age population.
The demographic dividend represents a temporary opportunity for rapid economic growth when a country has a large proportion of its population in the working ages. However, this dividend is not automatic. To benefit from this demographic structure, a nation must be able to productively employ its large workforce. If the economy cannot create enough jobs to absorb the influx of workers, the result may be high unemployment, social instability, and a wasted opportunity for development.

120. (B) The physiological capability to conceive and bear children.
In demography, it is important to distinguish between actual reproductive performance and potential reproductive capacity. This specific term refers to the biological ability of an individual or a couple to have children. It represents the maximum possible fertility in the absence of any birth control or social constraints. Fertility, in contrast, refers to the actual number of live births recorded. Factors affecting this biological potential include health, nutrition, and age.

121. (B) 2, 4 and 5
The Coase theorem, named after Ronald Coase, provides a unique perspective on resolving externalities. It suggests that if property rights are well-defined and transaction costs are zero, private bargaining will lead to an efficient outcome regardless of who owns the rights. However, its real-world application is often limited by the high costs of negotiation and enforcement. Statements one and three are incorrect because the theorem assumes rights are defined and bargaining occurs instead of government taxation.

122. (C) Higher wages in a different city
Migration is influenced by two types of factors: those that drive people away from their current home and those that attract them to a new location. Pull factors are positive characteristics of the destination area that appeal to potential migrants. Better economic opportunities, such as higher wages or more available jobs, are among the most common pull factors. In contrast, negative conditions like famine or political instability in the home region are considered push factors.

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123. (C) The benefits of mortality risk reduction.
This economic concept is used in Cost-Benefit Analysis to place a monetary value on policies that improve public safety or health. It does not represent the value of a specific individual's life. Instead, it measures how much people are willing to pay for a small reduction in the risk of death. By aggregating these values, policymakers can estimate the total economic benefit of regulations that prevent fatalities, such as new traffic safety laws or pollution controls.

124. (C) Statement I is false, but Statement II is true.
The demographic dividend is a time-bound opportunity that arises during a specific phase of a country's demographic transition. It occurs when fertility rates fall, leading to a temporary increase in the share of the population that is in the productive working ages. However, as these large working cohorts eventually age and retire, the dependency ratio will rise again. Therefore, the dividend is not a permanent feature of an economy but a window that must be utilized before it closes.

125. (B) Zero net migration and constant age-specific birth and death rates.
This demographic model describes a population that has reached a stable size and age distribution over time. It assumes that there is no movement into or out of the population and that the rates of birth and death for each age group remain unchanged. Under these specific conditions,

restrictions were used. Factors that influence this capacity include health, age, and nutritional status. It is distinct from fertility, which measures the actual number of live births.

187. (C) High birth rate and falling death rate.
In the second stage of the demographic transition, a society undergoes a period of rapid population expansion. While birth rates remain traditionally high due to cultural norms and economic needs, death rates begin to decline significantly. This drop in mortality is usually driven by improvements in public health, such as better sanitation, more reliable food supplies, and the introduction of basic medical treatments. The resulting large gap between births and deaths leads to a sharp increase in the population growth rate.

188. (C) Rival and non-excludable
Economic goods are classified based on their consumption characteristics. This specific type of resource is available for everyone to use because it is difficult to prevent access. However, because it is rivalrous, one person's use of the resource reduces the amount or quality available for others. Without effective management or property rights, these characteristics often lead to over-exploitation, as seen in international fisheries or public grazing lands, where individuals act in their own self-interest at the expense of the collective.

189. (B) A low and falling birth rate.
The shape of a population pyramid provides immediate insight into a nation's demographic trends. A pyramid that is narrower at the bottom than in the middle is described as constrictive. This shape indicates that the number of children being born is declining over time. This trend is typically associated with high levels of economic development, increased female education, and widespread use of family planning. If it continues, it can lead to an aging population and a shrinking total number of residents.

190. (B) An uncompensated cost or benefit imposed on a third party not involved in a transaction.
An externality represents a situation where a private economic activity has spillover effects on people who are not involved in the production or consumption of the good. Because these impacts are external to the market transaction, they are not reflected in the price. For example, a factory may pollute a river, harming local fishermen without paying for the damage. This leads to market failure, as the price mechanism fails to signal the true total cost of the activity to society.

191. (A) 4, 2, 1, 3
A systematic Cost-Benefit Analysis follows a logical sequence of steps to evaluate a project. The process begins by clearly defining the project's objectives and scope. Next, analysts must identify all potential impacts, both positive and negative. These impacts are then quantified and expressed in monetary terms to allow for comparison. Finally, because costs and benefits occur at different times, they are discounted to their present value to determine the net present value and the project's overall social desirability.

192. (C) Each generation of mothers is exactly replacing itself.
The net reproduction rate is a key demographic indicator used to determine if a population is replacing its numbers from one generation to the next. It calculates the average number of daughters a newborn female is expected to have, factoring in both fertility and the probability of surviving to the end of her reproductive years. A rate of exactly one point zero signifies a state of stationary growth where, in the long run, the total population size will remain stable.

193. (B) Free-rider problem
Public goods like flood control are non-excludable, meaning that once they are provided, everyone in the area benefits regardless of whether they paid for the service. This creates an incentive for individuals to hide their true willingness to pay and hope that others will cover the cost. This behavior, known as free-riding, makes it difficult for private firms to generate enough revenue to cover production costs. Consequently, the market typically fails to provide these essential goods, requiring government intervention or taxation.

194. (B) P-3, Q-4, R-1, S-2
Economic and demographic theories provide frameworks for understanding resource allocation and population dynamics. The Coase

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224. (C) actual reproductive performance; physiological ability to reproduce

In demography, it is important to distinguish between the potential for having children and the actual number of births recorded. One term refers to the biological capacity of an individual or population to reproduce, representing the maximum possible output under ideal conditions. The other term refers to the real reproductive performance, measured by the number of live births that actually occur in a specific period. Both are influenced by health, nutrition, and social factors such as family planning.

225. (C) Government intervention to set prices

The Coase theorem suggests that private bargaining can resolve externalities and achieve an efficient outcome without state action. For this to work, property rights must be clearly assigned to one of the parties, and transaction costs, such as the expense of negotiating, must be negligible. Additionally, it is easier to reach an agreement when the number of parties is small. Therefore, the third option is not a requirement, as the theory focuses on market-based solutions through bargaining.

226. (B) 2 and 4 only

Migration patterns are shaped by complex social and economic factors. Rural-to-urban movement is a dominant trend in many developing countries as people seek better opportunities in cities. While this can help individuals, it can also lead to brain drain, where the loss of skilled workers harms the development of the source country. Statements one and three are incorrect because internal migration occurs within a country, and push factors drive people away, rather than attracting them to a location.

227. (A) The Contingent Valuation Method

This stated preference method is used to estimate the economic value of environmental resources that do not have a market price. It involves surveying individuals and asking them hypothetical questions about their willingness to pay for an environmental improvement or their willingness to accept compensation for a loss. By directly eliciting these values through questionnaires, economists can estimate the total social value of assets like clean air or biodiversity that are not traded in traditional markets or behavioral data.

228. (A) A significant decline in the birth rate

The demographic transition model outlines the historical shift in population dynamics as a society develops. The second stage is defined by high birth rates and falling death rates, leading to rapid growth. The transition to the third stage occurs when the birth rate also begins to decline significantly. This shift is typically driven by factors such as increased urbanization, better access to education for women, and the widespread availability of family planning, which slows the natural population increase.

229. (B) A market failure due to a negative externality

Market failure occurs when the price mechanism does not reflect the true social costs of production. In this scenario, the steel mill imposes costs on others by polluting the air, but it does not pay for the damage. This creates a gap between the private cost to the firm and the total cost borne by society. Because these external costs are ignored, the firm produces too much steel, leading to an inefficient allocation of resources and a loss of welfare.

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230. (D) Mortality

The life table is a fundamental demographic model used to analyze survival and death patterns within a population. It tracks a hypothetical group of individuals, known as a cohort, from birth until the last member dies. By using current age-specific death rates, demographers can calculate several vital statistics, including the probability of dying at each age and the average life expectancy for individuals at different stages of life. It is a key tool for summarizing a population's mortality experience.

231. (B) Individual self-interest and the collective good

This economic concept describes the over-exploitation of shared resources that are available for everyone to use. Because the resource is non-excludable, it is difficult to prevent access. Because it is rival, one person's use reduces the amount available for others. Each individual has an incentive to maximize their own benefit, but the combined impact of everyone doing so leads

which a population is replacing itself. Maternal mortality, while related to pregnancy, is a measure of death rather than birth. Therefore, the first four metrics listed are the primary direct measures used to analyze fertility.

202. (C) A subscription to a streaming service
Economic goods are classified based on the criteria of rivalry and excludability. When a good is non-rival, one person's consumption does not reduce the amount available for others. If the provider can also prevent non-payers from accessing it, the good is described as excludable. A streaming service is a classic example of such a good, often called a club good. Multiple people can watch content simultaneously without interference, but access is restricted to those who have paid for a subscription.

203. (C) The potential for technological improvements in food production.
Thomas Malthus famously predicted that population growth would inevitably outpace food production, leading to crisis. However, critics point out that he failed to foresee the massive improvements in agricultural productivity brought about by technological progress. Advancements in machinery, fertilizers, and genetics have allowed food production to increase much faster than Malthus's predicted arithmetic progression. This has enabled the global population to grow significantly without experiencing the widespread Malthusian catastrophes he had initially envisioned, as technology significantly expanded the means of subsistence.

204. (B) The probability of a newborn dying before reaching age 1.
In the construction of a life table, several notations are used to describe the mortality and survival of a cohort. This specific value represents the probability that an individual who has just been born will die before they reach their first birthday. It is a critical component of the infant mortality rate and serves as a sensitive indicator of the overall health status of a population, as it reflects the quality of prenatal and pediatric healthcare services.

205. (C) Improved scenic beauty from a new park.
Cost-Benefit Analysis involves identifying all impacts of a project, but some effects are difficult to quantify in monetary terms. Direct financial flows like material costs and ticket revenue are tangible impacts. In contrast, benefits like the aesthetic enjoyment of a beautiful landscape or the preservation of a scenic view are classified as intangible. While these provide real value to individuals and improve social welfare, they do not have a market price and must be estimated using indirect valuation methods.

206. (B) The costs associated with bargaining and enforcing an agreement.
The Coase theorem suggests that private individuals can efficiently resolve externalities through direct negotiation. However, this process is rarely free. These costs include the time and effort needed to identify all involved parties, the expenses for legal and administrative services during the negotiation, and the ongoing costs of monitoring and enforcing the agreed-upon solution. If these costs are too high, they can prevent the parties from reaching an efficient agreement, making private bargaining an impractical solution for complex problems.

207. (C) Stable or experiencing slow growth
The shape of a population pyramid reveals the demographic history and current growth pattern of a nation. A pyramid that is nearly vertical, with relatively equal proportions across most age groups and only a slight narrowing at the top, indicates that birth and death rates have reached low and stable levels. This structure suggests that each generation is roughly replacing the one before it, resulting in a balanced age distribution and little to no natural population increase.

208. (B) Considers only the births of daughters.
Both indicators are used in demography to measure fertility, but they have different focuses. The total fertility rate estimates the average number of children of both sexes a woman will have in her lifetime. In contrast, the gross reproduction rate specifically calculates the average number of daughters a woman would produce if she survived her entire reproductive period. Because it only tracks female births, the gross reproduction rate is used to determine the potential for future population replacement.

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Public goods are defined by two essential characteristics that distinguish them from private market goods. National defense is a classic example because it is non-rival, meaning that protecting one person does not reduce the protection available for others. It is also non-excludable, as it is impossible to prevent anyone within the country from benefiting from the security provided. These traits lead to market failure, as private firms cannot easily charge individuals for their share of the protection, requiring public provision.

240. (A) The dependency ratio is low.
The demographic dividend represents a temporary opportunity for accelerated economic growth that occurs when a country's birth rates fall, leading to a shift in the population's age structure. This transition results in a window where the share of individuals in the working-age group is relatively large compared to the dependent children and elderly. When the dependency ratio is low, a nation can invest more in productivity and development, potentially leading to a significant increase in the standard of living.

241. (A) 1 and 2 only
Market failure occurs when the free market does not achieve an efficient allocation of resources. Public goods are underprovided because the free-rider problem makes it difficult for private firms to charge users. Negative externalities lead to overproduction because the producer does not pay for the damage caused to others. Statements three and four are incorrect because the Coase theorem suggests private bargaining can resolve externalities, and the tragedy of the commons applies to goods that are non-excludable.

242. (C) The average number of children a woman would bear in her lifetime at current age-specific rates.
The total fertility rate is a sophisticated demographic measure used to estimate the completed family size of a hypothetical cohort of women. It is calculated by summing the age-specific fertility rates recorded for a specific year across all reproductive age groups, typically from fifteen to forty-nine. This indicator provides a clearer picture of population replacement trends than the crude birth rate because it is standardized for age, allowing for a more accurate comparison between different countries and time periods.

243. (A) Per capita income
This population theory focuses on identifying the most desirable population size for a country based on its economic goals. It suggests that there is an ideal point where the available resources and technology are utilized most efficiently, resulting in the highest possible average income per person. If the population is too small or too large, the standard of living will be lower. This approach moves beyond the Malthusian focus on food scarcity to a broader view of economic well-being and welfare.

244. (C) Hypothetical bias
Contingent valuation is a stated preference method that uses surveys to estimate the value individuals place on environmental resources. A major criticism of this approach is that respondents may provide answers that do not reflect their actual behavior in a real market. Since no real money is exchanged during the survey, individuals might overstate their willingness to pay, a phenomenon known as hypothetical bias. This can lead to inaccurate estimates of an environmental resource's true value and misinformed public policy decisions.

245. (A) Postponement of marriage
Thomas Malthus identified two types of checks that limit population growth when it exceeds the food supply. Preventive checks are voluntary human behaviors that serve to decrease the birth rate before a crisis occurs. Postponing marriage, along with moral restraint and celibacy, is a primary example of such a check. In contrast, positive checks are involuntary events like famine, war, and disease that increase the death rate after the population has already outstripped its available means of subsistence.

246. (A) GRR is always greater than or equal to NRR.
Both indicators are used in demography to measure the extent to which a population is replacing itself. The gross reproduction rate represents the average number of daughters a woman would have if she survived through her reproductive years. The net reproduction rate is a more realistic measure because it factors in

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others. Non-excludability refers to the situation where it is not feasible or affordable to prevent individuals from using the good, even if they refuse to pay for it. These traits lead to market failure, as private firms cannot easily charge for these services and individuals have an incentive to free-ride.

217. (C) Low or zero

In the fourth stage of the demographic transition, a country has undergone significant social and economic development. Modern healthcare and high standards of living keep the death rate low. At the same time, birth rates also fall to very low levels due to changes in family norms and the widespread use of family planning. Because the gap between births and deaths is very narrow, the overall rate of natural population increase becomes minimal, leading to long-term demographic stability.

218. (B) The total number of years lived by the population between ages x and x+1.

In the construction of a life table, several columns are used to represent the mortality experience of a cohort. This specific value represents the collective number of years lived by the surviving members of the cohort during a single age interval. It is an important transitional step for calculating life expectancy, as it accounts for the people who survived the entire year as well as those who died at different points during that specific age interval.

219. (C) Optimum Theory of Population

This theory focuses on identifying the most desirable population size for a country based on its economic goals. It suggests that there is an ideal point where the available resources and technology are utilized most efficiently, resulting in the highest possible average income per person. If the population is too small or too large, the standard of living will be lower. This approach moves beyond the Malthusian focus on food scarcity to a broader view of economic well-being and welfare.

220. (C) Statement I is false, but Statement II is true.

Migration is a complex demographic process with diverse impacts on society and the economy. The first statement is false because migration does not always result in a net gain for every destination; it can create challenges such as social tension or environmental pressure. However, the second statement is correct, as migration can fill critical labor shortages and contribute to cultural diversity, while also putting strain on local infrastructure and public services if not managed effectively through appropriate social policies.

221. (C) P-4, Q-1, R-2, S-3

Environmental economics utilizes several key concepts to analyze resource allocation and policy. Many environmental assets are viewed as public goods due to their non-rivalry and non-excludability. When the market fails to account for externalities, it results in inefficiency. The Coase theorem suggests that private negotiation over property rights can resolve these issues. Finally, Cost-Benefit Analysis is used to evaluate projects by comparing their total discounted benefits and costs to determine their overall social desirability and economic feasibility.

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222. (A) Demographic dividend

This phenomenon represents a period of potential economic acceleration that occurs when a country's birth rates fall, leading to a shift in the population's age structure. This transition results in a temporary window where the share of individuals in the working-age group is relatively large compared to the dependent children and elderly. If a nation can productively employ this larger workforce through effective social and economic policies, it can achieve a significant increase in its per capita income.

223. (A) Public goods

The free-rider problem describes a situation where individuals can benefit from a service without contributing to its cost. This is a common issue for public goods because they are non-excludable, meaning it is impossible to prevent non-payers from accessing them. Because rational individuals have an incentive to let others pay for the provision, private firms cannot generate enough revenue to cover their costs. Consequently, the market underprovides these essential goods, often requiring government intervention and funding through taxation.

costs. This lack of profit potential results in either an inadequate supply of the resource or its complete absence from the market. Collective government action is usually required to ensure these goods exist.

255. (C) government intervention to improve social welfare.

Environmental market failure results in Pareto inefficient outcomes where resources are not allocated optimally for society. To correct these externalities and address the free-rider problem, public policies are necessary. Such interventions, including regulation, taxation, or direct provision, aim to realign private behavior with social welfare goals. These actions ensure that essential environmental services and resources remain available to everyone.

256. (B) Well-defined property rights and zero transaction costs

The Coase Theorem identifies specific circumstances under which private negotiation leads to efficient environmental outcomes. Efficiency requires that legal property rights over a resource are clearly established and enforceable. Additionally, the costs of bargaining, known as transaction costs, must be zero or negligible. When these criteria are met, parties can reach an agreement regardless of how rights were initially distributed.

257. (D) It does not affect the efficiency of the outcome, only the distribution of wealth.

According to Coasian logic, the final level of pollution remains efficient regardless of which party is initially assigned the property rights. The initial allocation simply determines who must pay whom during the bargaining process. Therefore, while the starting point dictates the final distribution of wealth between the polluter and the victim, it does not prevent reaching a socially optimal result.

258. (A) The presence of high transaction costs when many parties are involved

Applying the Coase Theorem to real-world pollution is difficult because transaction costs are rarely zero. When numerous individuals are affected by air or water pollution, identifying, organizing, and negotiating with every party becomes prohibitively expensive. These high coordination costs prevent efficient private bargains from forming. This practical limitation often makes government regulation more feasible than relying solely on private negotiation.

259. (C) internalizing the externality through private negotiation.

Bargaining allows the parties involved in an externality to account for social costs and benefits within their private decision-making process. By negotiating compensation, the polluter is forced to acknowledge the damage caused to others, effectively internalizing the external impact. This process transforms an external cost into a private one, leading to an outcome that maximizes the joint economic value.

260. (A) the negotiated level of pollution maximizes the joint profit of the factory and the fishery.

An efficient Coasian solution is reached when the marginal benefits of an activity equal the marginal damages. In a negotiation between a factory and a fishery, this occurs at the point where their combined profits are highest. This joint maximization represents a socially efficient outcome because it captures all available gains from trade between the two parties involved in the externality.

261. (D) A project is approved if its Net Present Value is greater than zero.

Cost-benefit analysis evaluates public projects by comparing the total monetary benefits to the total costs over time. A project is considered economically feasible when the discounted sum of its benefits exceeds the discounted sum of its costs. This positive net present value indicates that the project increases overall social wealth. It serves as a fundamental quantitative benchmark for policy decision-making.

262. (B) the gains to the winners are sufficient to potentially compensate the losers.

The Kaldor-Hicks criterion provides a practical basis for efficiency when policy changes create both winners and losers. It suggests that an allocation is desirable if the total benefits outweigh the total costs. This implies that the winners could, in theory, fully compensate the losers for their detrimental impacts. Actual

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to the depletion of the resource. This conflict shows how individual actions can harm the common welfare and long-term sustainability.

232. (A) Both A and R are true and R is the correct explanation of A.
Demographers use several indicators to measure fertility, but they vary in their level of precision. The crude birth rate is a simple measure that compares births to the total population, which includes many people who cannot give birth. In contrast, the total fertility rate is an age-standardized measure that focuses specifically on women in their reproductive years. Because it is independent of the age structure, the total fertility rate is a more refined and accurate indicator for comparing populations.

233. (C) Cost-Benefit Analysis
This analytical framework is used to evaluate the social desirability of a project or policy by comparing its total benefits and costs. A compensation test, such as the Kaldor-Hicks criterion, is a key component of this process. It determines if a project is an improvement by asking if those who benefit gain enough to theoretically compensate those who are disadvantaged. This allows the analysis to move forward even when a project creates both winners and losers, focusing on net social gain.

234. (A) A large part of the population is economically dependent (either young or old).
The dependency ratio is an age-structure measure used to assess the potential social and economic pressure on the productive portion of a population. It is calculated by comparing the number of people considered dependent, typically children under fifteen and adults over sixty-four, to the number of people in the working-age group. A high ratio indicates that each worker must support a larger number of non-working individuals, which has significant implications for public spending on education, pensions, and healthcare services.

235. (D) Population tends to grow faster than the means of subsistence.
Thomas Malthus famously argued that human population and the food supply grow at fundamentally different rates. He posited that population, if unchecked, increases in a geometric progression, while the means of subsistence can only increase in an arithmetic progression. This disparity eventually leads to a situation where the number of people exceeds the available resources. Malthus predicted that this would result in various checks, such as famine and disease, which serve to bring the population back in line with the food supply.

236. (C) Lack of employment is a common push factor.
Migration is driven by specific factors that either drive people away from their current residence or draw them to a new one. Push factors are negative conditions in the source region that compel individuals to leave. A lack of employment opportunities is one of the most common economic push factors. In contrast, pull factors are positive attractions in the destination area, such as better jobs or political stability. Therefore, the third option is correct, as it accurately identifies a reason people are forced to relocate.

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237. (A) Travel Cost Method
Environmental valuation methods are classified into revealed preference and stated preference techniques. Revealed preference methods estimate the economic value of non-market goods by observing individuals' actual behavior in related markets. The travel cost method is a primary example of this, as it infers the value of recreational sites from the time and money people spend to visit them. In contrast, stated preference methods like contingent valuation and choice modelling use surveys to ask people about their choices in hypothetical scenarios.

238. (A) l_x - l_{x+1}
In the construction of a life table, several columns are used to represent the mortality experience of a cohort. This specific value represents the number of deaths that occur within a single age interval. It is calculated by taking the number of people who survived to the beginning of the first age and subtracting the number of people who survived to the beginning of the next age. This measure helps demographers identify which ages carry the highest mortality risks and is essential for summarizing mortality.

239. (D) Non-excludable and non-rival

209. (B) Brain drain

Migration can have significant economic consequences for both the source and destination countries. This specific term refers to a phenomenon where highly educated and skilled professionals, such as doctors, scientists, and engineers, move from their home country to another nation in search of better career opportunities and higher wages. While this benefits the receiving country, it can deplete the human capital of the source country, potentially hindering its economic development and the quality of its essential public services.

210. (C) It predicts that all countries will ultimately have high birth rates and high death rates.

This theory describes the historical process of population change that occurs as a society undergoes industrialization and economic development. It posits a transition through several stages, beginning with high birth and death rates and ending with low birth and death rates. Therefore, the third statement is incorrect because the theory actually predicts that all countries will ultimately reach a stage of demographic stability characterized by low vital rates, better healthcare, and more effective control over fertility.

211. (A) 2 and 3 only

Cost-Benefit Analysis is a comprehensive tool used to evaluate the social desirability of projects or policies. It requires all impacts to be expressed in a common monetary unit to allow for comparison. The choice of discount rate is critical, as it determines the present value of future impacts and can significantly alter the outcome. Statement one is wrong because it applies to both sectors, and statement four is incorrect because the Pareto criterion is much stricter than Kaldor-Hicks.

212. (C) Private bargaining

The Coase theorem offers a unique perspective on resolving the problem of externalities without government intervention. It suggests that if property rights are well-defined and transaction costs are negligible, private individuals can negotiate an efficient outcome on their own. By communicating directly and reaching a mutual agreement, the parties can internalize the external costs or benefits. This leads to an allocation of resources that maximizes total welfare, regardless of which party was originally given the legal rights.

213. (B) Continue growing for some time even after fertility rates fall, due to a large number of young people.

This demographic phenomenon occurs because a population's age structure is shaped by past birth patterns. Even if fertility rates fall to the replacement level, the population will continue to increase for several decades. This growth is driven by the large number of young people from previous high-fertility generations who are now moving into their reproductive years. As long as the number of women of childbearing age remains large, total births will continue to exceed total deaths.

214. (A) Property

This revealed preference method is used to estimate the economic value of environmental features that are not traded directly in markets. It operates on the premise that the price of a marketed good, such as a house, is influenced by its specific characteristics, including local environmental quality. By comparing the prices of similar properties in areas with different levels of amenities like clean air or noise, economists can isolate the financial premium individuals are willing to pay for environmental benefits.

215. (B) It is not influenced by the age structure of the populations being compared.

The crude death rate is a simple measure that can be misleading because it depends on the proportion of elderly people in a population. In contrast, age-specific death rates focus on mortality within narrow age groups, such as infants or the elderly. Because these rates are calculated for specific ages, they provide a much clearer picture of health risks and allow for a more accurate comparison between different countries or regions that have varying age compositions.

216. (C) Non-rivalry and non-excludability

Public goods are defined by two essential characteristics that distinguish them from private commodities. Non-rivalry ensures that one person's consumption of the good does not diminish the amount or quality available for

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the likelihood that some females will die before or during their childbearing period. Because it accounts for mortality, the net reproduction rate is always lower than or equal to the gross rate.

247. (A) Some are made better off, and some are made worse off.

This compensation criterion is used in welfare economics to determine if a policy change improves social efficiency. It is more flexible than the strict Pareto criterion because it allows for changes where some people lose, provided that those who gain receive enough benefit to theoretically compensate the losers. This framework is essential for evaluating complex public policies where trade-offs are inevitable, focusing on whether the total gain is large enough to potentially leave everyone better off after redistribution.

248. (A) Low fertility and an aging population

The shape of a population pyramid provides immediate insight into a nation's demographic status. A pyramid that is broader in the middle than at the base indicates that the number of births has been declining for several decades. This structure is characteristic of countries with low fertility rates and high life expectancy. Over time, these larger middle-age cohorts will move into retirement, leading to a higher old-age dependency ratio and a likely long-term decrease in the total population.

249. (A) Famine and drought - Environmental push factor

Migration is driven by specific factors that either drive people away from their current residence or draw them to a new one. Push factors are negative conditions in the source region that compel individuals to leave. Environmental issues like famine and drought are primary examples of such pressures. In contrast, pull factors are positive attractions in the destination area, such as better job opportunities or political freedom. Therefore, the first option correctly pairs a migration pressure with its appropriate environmental category.

250. (A) Their costs and benefits are not fully reflected in market prices.

Market failure in the context of the environment occurs when private transactions do not account for the total social costs and benefits associated with a resource. Many environmental goods lack formal markets or well-defined property rights, leading to prices that understate the actual impact of consumption or production. Consequently, the price mechanism fails to guide resources toward their most efficient social use, necessitating specific policy interventions like taxes or regulations to internalize these external effects.

251. (B) Non-rivalry and non-excludability

Pure public goods are defined by two essential properties. Non-rivalry ensures that one person's use of the resource does not decrease the amount available for others. Non-excludability means it is impossible or extremely costly to prevent anyone from consuming the good regardless of payment. These characteristics distinguish environmental resources like clean air from typical private market goods in modern economics.

252. (A) the market lacks a price mechanism to ensure the optimal provision of non-excludable goods.

Market failure occurs when the private sector cannot efficiently allocate environmental resources. Because firms cannot easily charge for non-excludable goods, no effective price signal exists to guide production. Consequently, the profit motive leads to the under-provision or complete absence of these goods. This mismatch between private incentives and social welfare necessitates corrective government interventions and regulations.

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253. (C) Non-excludability

The free-rider problem arises specifically because individuals cannot be excluded from using a resource even if they do not pay for it. This incentive to benefit without contributing leads to a lack of funding and maintenance for environmental goods. Because exclusion is prohibitively costly, private providers cannot capture the value of the good, causing systematic market under-provision for society.

254. (D) Under-provision or no provision at all

Private markets typically fail to provide the socially optimal level of public goods. Since firms cannot exclude non-payers, they are unable to generate sufficient revenue to cover production

theorem focuses on private negotiations to resolve externalities. The demographic dividend highlights economic gains from changes in age structure. The Malthusian trap describes the point where population growth outstrips food supply. The Pareto criterion defines an efficient state where no one can be improved without harming another. These concepts are foundational for analyzing welfare and identifying the most efficient and beneficial social and economic policies.

195. (A) Both Statement I and Statement II are true.
Demographers use different measures to analyze birth patterns, each with its own advantages. The total fertility rate is a sophisticated indicator because it is age-standardized, meaning it is not affected by the specific number of people in different age groups. In contrast, the crude birth rate is a simpler measure but can be misleading because it depends heavily on the population's age and sex composition. Both are valuable tools for understanding reproductive trends and planning for future population growth and needs.

196. (C) Epidemiology
This scientific discipline focuses on studying how health-related states and events are distributed within a population. It investigates the frequency, patterns, and causes of diseases and injuries among different groups of people. By analyzing these trends, researchers can identify major health threats, determine the effectiveness of medical interventions, and develop strategies to prevent future outbreaks. It is a vital field for public health planning and for understanding the overall morbidity and well-being of a society over time.

197. (C) Religious persecution in the home country.
Migration is driven by specific factors that either drive people away from their current residence or draw them to a new one. Push factors are negative conditions in the source region that compel individuals to leave. Serious issues like religious persecution, political instability, and conflict are primary examples of such pressures. In contrast, pull factors are positive attractions in the destination area, such as better job opportunities, higher wages, or superior educational facilities, that entice people to move there.

198. (C) International fishing grounds
This economic concept describes the over-exploitation of a common resource due to the lack of private property rights. When a resource is rivalrous but non-excludable, such as international waters where anyone can fish, individual users have an incentive to catch as many fish as possible. Because the negative impact of over-fishing is shared by everyone while the benefit is kept by the individual, the collective resource is eventually exhausted. This situation demonstrates the need for international agreements or regulations.

199. (C) Life table
This demographic indicator is a summary measure of the mortality levels across all age groups in a population at a specific point in time. It represents the average number of years a hypothetical newborn would live if they were subjected to current age-specific death rates throughout their entire life. This measure is a primary output derived from the mathematical analysis of a life table. It serves as a vital tool for comparing the overall health and developmental status of different countries.

200. (A) Both A and R are true and R is the correct explanation of A.
The demographic dividend is a window of opportunity for rapid economic growth that occurs when a country's birth rates fall, leading to a larger proportion of the population in the working ages. However, this growth is not guaranteed simply by having a favorable age structure. To benefit from this transition, a nation must implement effective policies. This includes investing in quality education and healthcare to create a skilled workforce, and ensuring a stable economic environment with flexible labor markets.

201. (A) 1, 2, 3, and 4
Demographers use several indicators to track the frequency and patterns of births in a population. The crude birth rate and total fertility rate are standard measures of reproductive performance. The gross and net reproduction rates are more specific indicators that focus on the extent to

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payment of compensation is not required for a policy to satisfy this principle.

263. (C) By discounting all future values to a common present value

Economic analysis must account for the time value of money, as benefits and costs occurring in the future are worth less than those occurring today. Discounting adjusts future cash flows to their equivalent value in the present. This process allows analysts to compare financial impacts occurring at different times on a consistent scale. It is essential for long-term projects involving environmental impacts.

264. (D) a potential Pareto improvement.

A project meeting the Kaldor-Hicks criterion is defined as a potential Pareto improvement. While some individuals may be worse off, the total gains are large enough that the losers could be fully compensated. If this compensation were actually paid, the outcome would become a real Pareto improvement. Thus, the criterion identifies changes that increase the total size of the social pie.

265. (A) implies that winners' gains are sufficient to hypothetically compensate losers.

A positive net present value in cost-benefit analysis aligns with the compensation principle. It signifies that the aggregate benefits of a project exceed its aggregate costs. Consequently, the individuals who gain from the project receive enough value to theoretically offset the losses experienced by others. This hypothetical capacity for compensation justifies the project as efficient from a broad social welfare perspective.

266. (B) Contingent Valuation Method

The contingent valuation method is a stated preference technique used to value non-market environmental goods. It involves surveying individuals to determine their maximum willingness to pay for a specific environmental improvement. By constructing a hypothetical market, researchers can elicit values for resources that lack explicit prices. This method is particularly useful for measuring existence values and other non-use benefits of nature.

267. (B) infers value from observable choices in the housing market.

Hedonic pricing is classified as a revealed preference method because it relies on actual market behavior rather than survey responses. It examines how environmental amenities, such as clean air or proximity to parks, influence the prices of related market goods like residential property. By analyzing these price differences, economists can deduce the implicit value people place on specific characteristics.

268. (A) Travel Cost Method.

The travel cost method estimates the value of recreational sites by analyzing the expenditures individuals incur to visit them. These costs include transportation, lodging, and entry fees, which reflect the implicit price of the visit. As a revealed preference technique, it assumes that the time and money spent traveling indicate the minimum value visitors place on the environmental experiences provided.

269. (C) Stated preference methods rely on survey responses, while revealed preference methods use data on actual behavior.

The key difference lies in how values are obtained. Stated preference methods collect information directly from individuals through surveys, asking them to express their willingness to pay for environmental goods in hypothetical situations. In contrast, revealed preference methods estimate value by observing real choices people make in related markets, such as housing or travel spending. Thus, the distinction is between expressed responses and actual behavior.

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270. (D) are typically not traded in conventional markets and thus have no explicit price.

Environmental goods like biodiversity and clean air are often non-market resources. Because they are not bought and sold in standard commercial settings, they lack the price signals necessary for traditional economic analysis. Specialized valuation techniques are required to assign monetary values to these goods. This process enables policymakers to include environmental considerations alongside market-priced costs and benefits in decision-making.

271. (C) They are events like famine and disease that increase the death rate.

CHAPTER 10
Indian Economy

1. What does the 'pattern of economic growth' in India primarily refer to?
(A) The absolute increase in the real national income over time.
(B) Changes in sectoral GDP, employment, and investment patterns.
(C) The periodic fluctuations of the recurring business cycles.
(D) The distribution of total income among the whole population.

2. Consider the following statements regarding the structure of the Indian economy:
Statement I : The structure of the Indian economy has shifted from being primarily agrarian to services-dominated.
Statement II : This structural transformation has been accompanied by a proportional shift of the workforce from agriculture to the services sector.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

3. Which of the following statements accurately describes a major challenge in Indian agriculture?
(A) Consistent and uniform monsoon patterns across all states.
(B) High levels of mechanization leading to labour surplus.
(C) Fragmentation of landholdings hindering economies of scale.
(D) Oversupply of agricultural credit to small and marginal farmers.

4. The 'License Raj' in India is most closely associated with which industrial policy period?
(A) Post-1991 liberalization era.
(B) The colonial industrial policy under British rule.
(C) The period after the implementation of GST.
(D) The period between 1951 and 1990.

5. Match the service sector components in List I with their corresponding examples in List II:
List I: (Service Sector Component)
P. Trade, Hotels, and Restaurants
Q. Financing, Insurance, Real Estate & Business Services
R. Community, Social & Personal Services
S. Transport, Storage & Communication
List II: (Example)
1. Public Administration and Defence
2. Software development and BPO
3. Wholesale and retail trade
4. Railways and postal services
Codes:
(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-3, S-4

6. Which of the following is NOT a primary objective of rural development programs in India?
(A) Alleviation of poverty.
(B) Promotion of large-scale industrial enterprises.
(C) Development of infrastructure like roads and electricity.
(D) Improvement in health and education facilities.

7. The 'Smart Cities Mission' in India primarily focuses on which aspect of urban development?
(A) Building entirely new cities on undeveloped greenfield sites.
(B) Providing universal housing units for all of the urban poor.
(C) Nationalizing all urban public transport and

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280. (D) difference between the Crude Birth Rate and Crude Death Rate.

The rate of natural increase determines how quickly a population grows or shrinks, excluding the effects of migration. It is found by subtracting the crude death rate from the crude birth rate. When the birth rate is higher than the death rate, the population naturally expands. This figure represents the fundamental biological component of demographic change and societal growth.

281. (A) a large proportion of working-age people relative to dependents.

The demographic dividend is an economic potential that arises when a population's age structure shifts. As fertility rates decline, the number of young dependents decreases while the group of working-age adults remains large. This temporary bulge in the labor force can drive productivity, savings, and investment. If supported by the right policies, this change can lead to rapid growth.

282. (B) A high birth rate and a young population

A population pyramid with a broad base indicates that a large percentage of the total population consists of young children. This shape is characteristic of societies with high birth rates and rapid population growth. In such populations, the number of births significantly outweighs the number of individuals in older age categories. This structure implies a high future demand for services.

283. (B) low dependency ratio.

The demographic window of opportunity is defined by a low dependency ratio, meaning there are relatively few children and elderly people to support for every working-age adult. This period allows a larger share of national income to be diverted toward investment rather than consumption. A lower ratio maximizes the economic contribution of the workforce, creating a favorable climate.

284. (A) Having an economy that can provide jobs for the large workforce

Realizing the demographic dividend requires more than just a favorable age structure. The expanded working-age population must be gainfully employed to contribute to economic output. Without an economy capable of creating enough productive jobs, the potential for growth remains untapped and may even lead to social instability. Job creation is therefore the most critical policy requirement for economic success.

285. (C) dependency ratio.

The dependency ratio is a demographic indicator derived directly from the age structure of a population. It compares the number of people in non-working age groups, typically the young and the elderly, to the number of people in the productive working-age category. This ratio highlights the economic burden placed on the workforce and is central to understanding aging.

286. (D) analyze the age-specific mortality experience of a population.

A life table provides a systematic statistical summary of how mortality affects a specific population across different ages. By tracking deaths and survivorship within a hypothetical or actual cohort, it reveals patterns in the probability of dying. This analysis is vital for insurance, public health, and urban planning. It offers a comprehensive view of life expectancy throughout the lifespan.

287. (C) average number of years a newborn is expected to live.

Life expectancy at birth, represented as e0, is the most common summary measure derived from a life table. It estimates the average number of additional years a person would live if they experienced the age-specific mortality rates of a given period throughout their entire life. This indicator reflects the overall health, nutrition, and safety conditions of a specific population.

288. (B) mortality data from a specific, short period of time applied to a hypothetical cohort.

A period life table uses current mortality data to construct a snapshot of a population's survival experience. It applies the age-specific death rates observed in a single year or short period to a hypothetical cohort of births. This method allows demographers to estimate life expectancy based on present conditions rather than waiting decades to observe the actual mortality patterns.

289. (D) The number of deaths within a specific age interval

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Malthus described positive checks as natural or social phenomena that increase mortality within a population. These factors, which include famine, infectious diseases, and war, act to reduce population size when it exceeds the available food supply. These checks are distinct from preventive checks, which lower the birth rate through human agency. Positive checks represent the involuntary consequences of overpopulation.

272. (B) geometric population growth and arithmetic subsistence growth.
The Malthusian theory centers on the divergent growth rates of population and food resources. Malthus argued that human populations tend to double at a geometric rate, while the means of subsistence only increase arithmetically. This inherent imbalance creates a recurring struggle for survival, as the demand for resources inevitably outpaces the capacity of the environment to provide them for society.

273. (D) high birth/death rates to low birth/death rates.
The demographic transition model illustrates the historical evolution of population patterns as societies modernize. It tracks the shift from high birth and death rates in pre-industrial periods to low birth and death rates in advanced stages of development. This structural change results in varying rates of population growth and stabilization. The theory links these demographic shifts to improved health conditions.

274. (A) Stage two, due to high birth rates and falling death rates.
A population explosion occurs in the second stage of the demographic transition. During this phase, death rates drop rapidly due to better sanitation and medicine, while birth rates remain consistently high. This creates a large gap between the number of births and deaths, leading to unprecedented rates of natural increase. This stage represents the most volatile period of demographic growth.

275. (C) is a descriptive model of population change linked to socio-economic development.
Unlike the Malthusian theory, which focuses on biological growth limits and inevitable crises, demographic transition theory describes historical patterns of change. It provides a framework for understanding how economic and social progress, such as urbanization and education, naturally lead to lower fertility and mortality. This model emphasizes societal evolution rather than a fixed struggle between population numbers and food supply.

276. (A) Fertility
Fertility refers to the actual reproductive output of a population, measured by live births. It is distinct from fecundity, which represents only biological potential to conceive. Demographers use various measures of fertility to analyze how many children are born within a specific time frame. This data is essential for understanding population growth and its long-term dynamics for planning purposes.

277. (D) 1,000 individuals in the mid-year population.
The crude birth rate is a standard demographic measure used to quantify annual fertility. It is calculated by dividing the total number of live births in a year by the estimated population at the middle of that same year. Multiplying this ratio by 1,000 provides a standardized rate. This allows for easy comparison of birth patterns across different regions.

278. (B) the patterns of disease and illness.
Morbidity is the study of the frequency and distribution of illness and injury within a population. It provides critical insights into the general health status of a group, going beyond simple mortality data. By tracking incidence and prevalence, health officials can identify emerging health threats and plan for medical services. This focus on wellness is fundamental for public health.

279. (C) prevalence rate.
The prevalence rate measures the total proportion of a population suffering from a specific condition at a particular point in time. It includes both newly diagnosed cases and existing cases that have not yet resolved. This measure differs from the incidence rate, which only counts new cases. Prevalence is a vital metric for understanding the overall burden of disease.

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environmental risks. The increase in the working-age population often leads to higher levels of industrial production and household consumption. Without strong environmental regulations or green technologies, this surge in economic activity can cause faster depletion of natural resources and increased pollution levels. Managing this growth is crucial for sustainability.

299. (B) increasing the number of individuals contributing to and being affected by externalities.

From an integrated perspective, population growth amplifies market failures by increasing the scale of externalities. With more people involved in production and consumption, the total impact of unpriced costs, such as pollution, grows. Additionally, more individuals are harmed by these environmental externalities. This expansion makes it more difficult for private parties to negotiate solutions, thereby intensifying the need for intervention.

300. (A) a potential long-term strategy for mitigating environmental pressures.

Integrated analysis suggests that addressing demographic trends like high fertility and rapid migration can be a proactive way to manage environmental health. By implementing policies that encourage sustainable population growth and planned urbanization, governments can reduce the underlying drivers of environmental stress. This demographic approach complements direct economic tools like taxation and regulation, forming a comprehensive strategy for sustainability.

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The dx column in a life table records the total number of individuals from the initial cohort who are expected to die during a particular age interval. This value is calculated based on the specific mortality rates assigned to each age. By examining dx, demographers can identify at which ages mortality is highest, such as in infancy or among the elderly.

290. (A) radix.
The radix is the starting size of the hypothetical cohort in a life table, typically set at a round number like 100,000 live births. It provides the base from which all subsequent survival and death figures are calculated as the cohort ages. The use of a standard radix allows for the easy comparison of mortality experiences across different global populations.

291. (C) Political persecution in one's home country
Push factors are negative conditions at a person's place of origin that compel them to migrate elsewhere. Political persecution is a classic example, as it creates an unsafe environment that forces individuals to leave their homes in search of safety. Other push factors include poverty and war. These factors represent the repelling forces that drive people away from home.

292. (A) international migration.
Migration that involves moving from one sovereign nation to another is classified as international migration. This type of movement requires crossing national borders and often involves complex legal processes like obtaining visas or work permits. Moving from India to the United States for employment purposes fits this definition. It results in changes to the demographic composition of both affected countries.

293. (D) analyze the causes and motivations behind migration.
The push-pull framework is a conceptual tool used to categorize and understand why people move. It separates factors into those that drive people out of their current location and those that attract them to a new one. By examining these forces, researchers can identify the primary economic, social, and political drivers of migration and the decision-making process.

294. (B) intention to establish a new residence.
Migration is defined by the geographic movement of individuals with the specific intent of establishing a permanent or semi-permanent home. This distinguishes migration from temporary movements like commuting, tourism, or business trips. The change in residence must involve crossing a specified boundary, such as a city or national border, to be considered a demographic event affecting population distribution.

295. (C) pull factor for migration to that city.
Pull factors are attractive qualities at a destination that encourage people to move there. The availability of better employment, higher wages, and superior career opportunities in a large city act as powerful magnets for potential migrants. These factors draw individuals from areas with fewer opportunities toward locations where they perceive a higher quality of life or better prospects.

296. (D) It intensifies the stress on them through increased consumption and waste.
Rapid population growth puts significant pressure on environmental public goods like clean water and forests. As the number of people increases, so does the aggregate demand for resources for survival and economic activity. This growth also leads to higher levels of waste and pollution. These combined effects exacerbate market failures and increase the difficulty of maintaining a stable environment.

297. (A) Valuation of urban environmental amenities and pollution costs
Urbanization concentrates populations in limited spaces, leading to localized environmental challenges like air and water pollution. This demographic shift increases the demand for urban amenities like parks and green spaces. Consequently, economists must use specialized valuation tools to measure the benefits of these amenities and the costs of pollution. Such valuations are essential for designing effective, sustainable urban policies.

298. (B) accelerating consumption and industrial activity.
While a demographic dividend can boost economic growth, it also carries potential

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transit systems.
(D) Redeveloping existing urban areas through technological means.

8. What was a primary effect of the trade policy reforms of 1991 on India's foreign trade structure?
(A) A shift towards an open, export-oriented trade regime.
(B) A sharp decrease in the volume of imports and exports.
(C) An increase in quantitative restrictions and import tariffs.
(D) A focus on trade exclusively with socialist economies.

9. Which of the following statements about Public-Private Partnerships (PPPs) in infrastructure is incorrect?
(A) PPPs involve collaboration between a government agency and a private-sector company.
(B) They are used to finance, build, and operate infrastructure projects.
(C) The private sector partner typically bears all the risks associated with the project.
(D) The primary goal is to leverage private sector expertise and capital for public projects.

10. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Reforms in the capital market in India, such as the establishment of SEBI, were necessary.
Reason (R) : Prior to reforms, the capital market was characterized by a lack of transparency and unfair trading practices, which eroded investor confidence.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

11. What is the primary role of the Finance Commission of India?
(A) To prepare the Union Budget annually.
(B) To regulate the Indian banking sector.
(C) To set the monetary policy and repo rate.
(D) To recommend the distribution of net tax proceeds between the Centre and the States.

12. What does the 'Headcount Ratio' measure in the context of poverty?
(A) The total number of poor people in a country.
(B) The percentage of the population living below the poverty line.
(C) The intensity of poverty among the poor.
(D) The average income of people living below the poverty line.

13. Consider the following statements regarding unemployment in India:
Statement I : Disguised unemployment is a situation where more people are employed in an activity than are actually required.
Statement II : Disguised unemployment is predominantly a feature of the organized industrial sector in India.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

14. Which of the following pairs correctly matches the economic phase with its dominant characteristic in India?
(A) Pre-1950: Rapid industrialization
(B) 1980-1991: Laissez-faire economy
(C) Post-2000: Agrarian-led growth
(D) 1950-1980: Hindu Rate of Growth

15. Consider the following statements regarding policy responses to challenges in Indian agriculture:
1. The Minimum Support Price (MSP) regime aims to insure farmers against price volatility.
2. The e-NAM platform was launched to create a unified national market for agricultural commodities.
3. The Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) is a crop insurance scheme.
4. The focus on micro-irrigation aims to

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away from being concentrated on only a few trade partners.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

33. What is the 'Build-Operate-Transfer' (BOT) model in infrastructure development?
(A) A model where the government builds, operates, and then transfers the project to a private entity.
(B) A model where a private entity builds for a term and then transfers it to the state.
(C) A model where a project is built by a private entity and immediately transferred for state use.
(D) A model where the government builds the project and outsources only the basic operation.

34. Which of the following pairs concerning market reforms is incorrectly matched?
(A) Land Reforms: Introduction of License Raj
(B) Land Reforms: Abolition of Zamindari system
(C) Labour Reforms: Codification of labour laws
(D) Capital Market Reforms: Establishment of SEBI

35. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Finance Commissions in India are constituted periodically to address vertical and horizontal imbalances in fiscal federalism.
Reason (R) : The Constitution of India provides for a clear-cut division of financial resources which completely eliminates any fiscal imbalances between the Centre and States.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

36. What is the 'Poverty Gap Index'?
(A) The percentage of people living below the poverty line.
(B) The number of years it would take for a country to eradicate poverty.
(C) The ratio of the richest 10% to the poorest 10% of the population.
(D) The mean shortfall of the total population from the poverty line.

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37. The type of unemployment that arises due to changes in technology or demand patterns, making certain skills obsolete, is best described as:
(A) Frictional unemployment
(B) Seasonal unemployment
(C) Structural unemployment
(D) Cyclical unemployment

38. The period of high economic growth in India post-2000 has been characterized as 'jobless growth' by some economists. Why?
(A) Because the absolute number of jobs in the economy decreased.
(B) Because employment growth rate was lower than the GDP growth rate.
(C) Because the growth was exclusively in the agriculture sector.
(D) Because all new jobs were created in the public sector only.

39. A significant policy response to the challenge of agricultural marketing in India has been:
(A) The promotion of APMCs (Agricultural Produce Market Committees) with monopoly powers.
(B) The dismantling of all public procurement systems.
(C) The mandatory requirement for farmers to sell produce only to government agencies.
(D) The creation of a national electronic market (e-NAM) to integrate mandis.

40. Consider the following statements regarding the challenges faced by the industrial sector in India:
1. Inadequate infrastructure, particularly power and logistics.
2. Complex and rigid labour laws.

(B) Per Capita Income
(C) Gross Domestic Product
(D) Human Development Index

25. Match the types of unemployment in List I with their descriptions in List II:
List I: (Type of Unemployment)
P. Frictional Unemployment
Q. Structural Unemployment
R. Cyclical Unemployment
S. Disguised Unemployment
List II: (Description)
1. Unemployment caused by a recession or downturn in business activity.
2. Unemployment arising from a mismatch between available jobs and the skills of the workforce.
3. Temporary unemployment when individuals are in the process of moving from one job to another.
4. A situation where marginal productivity of labour is zero.

Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

26. All of the following are indicators of the structure of economic growth ExCEPT:
(A) The absolute value of the fiscal deficit.
(B) Share of agriculture in GDP.
(C) Share of manufacturing in total employment.
(D) The ratio of exports to GDP.

27. The Green Revolution in India led to a significant increase in the production of wheat and rice, but a major challenge that emerged was:
(A) A decline in the use of chemical fertilizers.
(B) A shift away from water-intensive crops.
(C) A surplus of agricultural labour in all states.
(D) Increased regional and interpersonal inequalities.

28. In the context of Indian industrial policy, what does the term 'disinvestment' refer to?
(A) The closure of loss-making private sector units.
(B) The sale of public sector equity to the private sector or the public.
(C) A government policy to discourage foreign investment in key sectors.
(D) The process of delicensing industries to promote competition.

29. Which statement accurately reflects the growth pattern of the services sector in India?
(A) The growth has been uniformly distributed across all sub-sectors of services.
(B) The sector's growth is primarily driven by public administration and defense.
(C) It has been a major contributor to India's export earnings, especially IT services.
(D) It employs the largest share of the Indian workforce.

30. Arrange the following rural development schemes in the chronological order of their launch:
1. Pradhan Mantri Gram Sadak Yojana (PMGSY)
2. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
3. National Rural Livelihood Mission (NRLM)
4. Deendayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY)

Select the correct answer from the codes given below:
(A) 1, 2, 3, 4
(B) 2, 1, 4, 3
(C) 1, 3, 2, 4
(D) 4, 3, 1, 2

31. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was a comprehensive program aimed at:
(A) Encouraging reforms and fast-tracking planned development of identified cities.
(B) Providing free housing to all residents of metropolitan cities.
(C) Exclusively funding the construction of metro rail projects.
(D) Privatizing all municipal services in major urban centers.

32. Consider the following statements regarding India's foreign trade:
Statement I : The 'direction' of foreign trade refers to the countries with which a nation trades.
Statement II : Post-liberalization, the direction of India's trade has significantly diversified

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address the challenge of water scarcity.
Which of the statements given above are correct?
(A) 1, 2 and 4 only
(B) 1 and 3 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

16. The term 'Mahalanobis Model', which influenced India's Second Five-Year Plan, emphasized the development of which sector?
(A) Agriculture and rural crafts.
(B) Heavy and capital goods industries.
(C) Small-scale industries.
(D) Service sector and IT exports.

17. The rapid growth of India's service sector, without a corresponding growth in the manufacturing sector, is often referred to as:
(A) Stagnation
(B) Leapfrogging
(C) Trickle-down effect
(D) Dutch disease

18. Which statement about the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is incorrect?
(A) Employment is provided only in skilled technical jobs.
(B) It guarantees 100 days of wage employment in a financial year to a rural household.
(C) It is a demand-driven scheme.
(D) It aims to create durable assets and enhance the livelihood resource base of the poor.

19. What is meant by 'urban sprawl' in the context of urban development challenges?
(A) The planned densification of central city business districts.
(B) The vertical growth of cities through high-rise skyscrapers.
(C) The uncontrolled spread of urban areas into the countryside.
(D) The development of satellite towns around a primary metro city.

20. Consider the following statements regarding India's Balance of Payments (BOP):
1. The BOP is a systematic record of all economic transactions between residents of a country and the rest of the world.
2. It comprises two main accounts: the current account and the capital account.
3. Export of software services is recorded as a credit on the current account.
4. Foreign Direct Investment (FDI) is recorded on the capital account.
5. A surplus in the BOP leads to a decrease in the country's foreign exchange reserves.

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

21. What constitutes 'Social Infrastructure'?
(A) Roads, railways, ports, and airports.
(B) The system of laws and regulations governing a country.
(C) Education, health, sanitation, and housing facilities.
(D) Power generation, transmission, and distribution networks.

22. Consider the following statements regarding Indian labour market reforms:
Statement I : The reforms in the Indian labour market have aimed at increasing flexibility for employers while ensuring social security for workers.
Statement II : The codification of numerous central labour laws into four codes is a key part of these reforms.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

23. The FRBM Act was enacted in India primarily to ensure:
(A) Trade surplus and export promotion.
(B) The autonomy of the Reserve Bank of India.
(C) Equitable distribution of income.
(D) Fiscal discipline and macroeconomic stability.

24. Which of the following is a common measure of income inequality?
(A) Gini Coefficient

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3. Difficulties in land acquisition for industrial projects.
4. Complete absence of domestic demand for industrial goods.

Which of the statements given above are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

41. The sunrise sector of the Indian economy, characterized by high growth rates and high potential, is often used to refer to the:
(A) Traditional handicrafts sector
(B) Agricultural sector
(C) Knowledge-based services sector
(D) Heavy industries sector

42. Which of the following is an incorrect statement regarding issues in rural development in India?
(A) There is a complete absence of social stratification in rural India.
(B) Rural areas suffer from a lack of non-farm employment opportunities.
(C) Access to quality education and healthcare is a major challenge.
(D) Rural-urban migration is a significant issue driven by lack of opportunities.

43. In the context of urban development, what does 'gentrification' refer to?
(A) The government policy of providing subsidized housing for the urban poor.
(B) The expansion of city boundaries to include surrounding villages.
(C) The creation of green belts and parks within urban areas.
(D) The process of renovating deteriorated urban neighborhoods, which often displaces lower-income residents.

44. Consider the following statements regarding foreign investment:
Statement I : Foreign Direct Investment (FDI) involves acquiring a substantial interest in a foreign enterprise and implies a long-term relationship.
Statement II : Foreign Portfolio Investment (FPI) involves the purchase of financial assets like stocks and bonds and is generally considered more volatile than FDI.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

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45. Consider the following components:
1. Education
2. Power grids
3. National highways
4. Telecommunication networks
5. Public health centers

Which of the above are components of 'Physical Infrastructure'?
(A) 1, 2 and 3 only
(B) 2, 3 and 4 only
(C) 1, 4 and 5 only
(D) 1, 2, 3, 4 and 5

46. The primary objective of imposing ceilings on land holdings as a part of land reforms was to:
(A) Promote large-scale corporate farming.
(B) Encourage the export of agricultural land.
(C) Convert agricultural land for industrial use.
(D) Redistribute surplus land among the landless.

47. Which pair is correctly matched?
(A) N. K. Singh: Chairman of the 15th Finance Commission
(B) Article 280 of the Constitution: Powers of the Union to levy taxes
(C) Finance Commission: A permanent body
(D) Vertical Devolution: Distribution of funds among states

48. The FRBM Review Committee, headed by N.K. Singh, recommended a 'debt-to-GDP ratio' as a primary anchor for fiscal policy. This signifies a shift in focus from:
(A) Exclusively targeting inflation.
(B) Targeting only annual deficit numbers like fiscal and revenue deficits.
(C) Exclusively targeting the current account deficit.
(D) Targeting the exchange rate of the rupee.

49. Which of the following is NOT a direct cause of income inequality in India?
(A) Unequal distribution of land and other assets.
(B) A progressive taxation system.
(C) Gaps in access to education and health.
(D) The informal nature of a large part of the economy.

50. Match the committees in List I with the descriptions they are associated with in List II:
List I: (Committee)
P. Lakdawala Committee
Q. Tendulkar Committee
R. Rangarajan Committee
S. Alagh Committee
List II: (Associated with)
1. Recommended a shift from calorie-based to a broader consumption basket for poverty estimation.
2. The first to construct a poverty line for rural and urban areas based on nutritional requirements.
3. Recommended separate poverty lines for rural and urban areas based on state-specific price indexes.
4. Provided a revised poverty estimation methodology in 2014, resulting in higher poverty figures than Tendulkar's.
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

51. Which statement best describes the 'structural pattern' of India's economic growth?
(A) A balanced and proportionate growth across agriculture, industry, and services.
(B) A growth pattern consistently led by the agricultural sector since independence.
(C) A premature shift to the services sector, bypassing a mature industrialization phase.
(D) A decline in the absolute contribution of the services sector to GDP.

52. The Operation Flood in India is associated with a revolution in which sector?
(A) Fish production
(B) Oilseed production
(C) Horticulture
(D) Milk production

53. Consider the following statements regarding the Make in India initiative:
Statement I : The Make in India initiative was launched to encourage companies to manufacture their products in India.
Statement II : A primary goal of the initiative is to increase the contribution of the manufacturing sector to the GDP and create jobs.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

54. The growth of Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) in India is a key component of the growth in which sub-sector of services?
(A) Trade, hotels and restaurants
(B) Financing, insurance, real estate and business services
(C) Community, social and personal services
(D) Transport, storage and communication

55. What are 'Non-Farm Activities' in the context of rural development?
(A) Activities related to the cultivation of cash crops instead of food crops.
(B) The practice of organic farming.
(C) The lending activities of informal moneylenders in villages.
(D) All economic activities in rural areas other than crop cultivation and allied sectors.

56. Which of the following is an incorrect statement about the challenges of urbanization in India?
(A) A uniform distribution of urban growth across all states.
(B) Increasing pressure on urban infrastructure like water supply and sanitation.
(C) The proliferation of slums and informal settlements.
(D) Rising levels of air and water pollution in cities.

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57. The main objective of India's Foreign Trade Policy is generally to:
(A) Maximize import tariffs to protect domestic industries.
(B) Restrict the flow of foreign capital into the country.
(C) Link trade with the country's development and employment generation goals.
(D) Achieve self-sufficiency by minimizing all foreign trade.

58. The 'Golden Quadrilateral' project in India is associated with the development of:
(A) National highways
(B) Railway networks
(C) Airports
(D) Sea ports

59. One of the key aims of recent labour law codification in India is to:
(A) Increase the number of labour laws to cover more specific situations.
(B) Make it mandatory for all firms, regardless of size, to form trade unions.
(C) Abolish all forms of social security for workers.
(D) Simplify and amalgamate multiple laws into a smaller number of codes.

60. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : The FRBM Act mandates the elimination of the revenue deficit.
Reason (R) : A revenue deficit implies that the government's revenue expenditure exceeds its revenue receipts, indicating it is borrowing to finance consumption expenditure.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

61. A factory worker who is laid off during an economic recession is an example of:
(A) Disguised unemployment
(B) Frictional unemployment
(C) Cyclical unemployment
(D) Seasonal unemployment

62. How did the economic reforms of 1991 impact the pattern of economic growth in India?
(A) They led to a sharp and permanent decline in the GDP growth rate.
(B) They resulted in agriculture once again becoming the largest contributor to GDP.
(C) They completely isolated the Indian economy from global economic trends.
(D) They moved the economy to a higher growth trajectory, particularly driven by the service and industrial sectors.

63. Policy responses to challenges in Indian agriculture have included all of the following ExCEPT:
(A) Promoting the nationalization of all agricultural land.
(B) Providing subsidized inputs like fertilizers and electricity.
(C) Expanding the reach of institutional credit.
(D) Investing in agricultural research and extension services.

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64. Which statement regarding the structure of India's industrial growth is incorrect?
(A) The pre-reform era was dominated by public sector undertakings in key areas.
(B) The industrial sector has consistently employed over 50% of the Indian workforce.
(C) The post-reform era has seen a significant rise in the role of the private sector.
(D) The Micro, Small, and Medium Enterprises (MSME) sector is a major employer.

65. Consider the following statements about the challenges in India's services sector:
1. The growth has been skewed towards low-productivity, low-wage jobs in the informal sector.
2. The high-skill, high-wage segment (like IT) has not created enough jobs for the semi-skilled workforce.
3. There are significant regulatory hurdles in sub-sectors like legal and accounting services.
4. The sector faces no competition from other developing countries.

Which of the statements given above are correct?
(A) 1, 2 and 3 only

sector enterprises.
(D) The decline in global demand for services.

99. Major challenges facing Indian agriculture include all of the following ExCEPT:
(A) Low productivity compared to global averages.
(B) Dependence on monsoon rainfall.
(C) A consistent surplus of cold storage facilities.
(D) Poor marketing and post-harvest infrastructure.

100. Match the policies/initiatives in List I with their primary objectives in List II:
List I: (Policy/Initiative)
P. Industrial Policy Resolution, 1956
Q. New Economic Policy, 1991
R. Make in India Initiative
S. Startup India Initiative
List II: (Primary Objective)
1. Fostering entrepreneurship and a culture of innovation.
2. Liberalization, Privatization, and Globalization (LPG).
3. Transforming India into a global design and manufacturing hub.
4. Establishing a socialist pattern of society with the public sector at the commanding heights.
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-3, R-2, S-1
(C) P-4, Q-2, R-3, S-1
(D) P-2, Q-4, R-1, S-3

101. What is the difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?
(A) FDI is in physical assets while FPI is only in services.
(B) FDI comes from developed countries, while FPI comes from developing countries.
(C) FDI is long-term and involves management control, while FPI is short-term investment in financial assets.
(D) FDI is always done by private companies, while FPI is always done by governments.

102. Consider the following statements regarding Public-Private Partnerships (PPPs):
Statement I : In a Public-Private Partnership (PPP), the government completely transfers ownership of the asset to the private partner.
Statement II : PPPs are seen as a way to bridge the infrastructure deficit by leveraging private sector funds and efficiency.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

103. The 'Code on Wages, 2019' amalgamates legislation relating to:
(A) Occupational safety and health.
(B) Industrial disputes and trade unions.
(C) Social security and maternity benefits.
(D) Minimum wages, payment of wages, bonus, and equal remuneration.

104. Who appoints the Chairman and members of the Finance Commission of India?
(A) The President of India
(B) The Prime Minister of India
(C) The Chief Justice of India
(D) The Governor of the Reserve Bank of India

105. A Gini coefficient of 1 (or 100%) represents:
(A) Perfect equality in income distribution.
(B) A moderate level of income inequality.
(C) Perfect inequality in income distribution.
(D) The poverty headcount ratio.

106. Disguised unemployment in the agricultural sector implies that:
(A) The marginal productivity of some of the workers is close to zero.
(B) Farmers are willingly not working to their full capacity.
(C) There are no workers available for agricultural work.
(D) All agricultural workers are highly skilled.

107. Which of the following is an incorrect statement regarding the pattern of India's post-independence economic growth?
(A) A period of slow growth, termed the Hindu rate of growth, until the 1980s.
(B) A transition to a higher growth path since

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74. The term Hindu rate of growth was coined by Professor Raj Krishna to describe the Indian economic growth rate during which period?
(A) 1950-1980
(B) 1991-2003
(C) 2004-2014
(D) 1857-1947

75. Match the revolutions in List I with their associated products in List II:
List I: (Revolution)
P. Green Revolution
Q. White Revolution
R. Blue Revolution
S. Yellow Revolution
List II: (Associated Product)
1. Fish
2. Milk
3. Food Grains (Wheat & Rice)
4. Oilseeds
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

76. What are Public Sector Undertakings (PSUs)?
(A) Companies that are listed on foreign stock exchanges.
(B) State-owned enterprises or government-owned companies.
(C) Companies jointly owned by domestic and foreign entities.
(D) Non-profit organizations working in the industrial sector.

77. Consider the following statements regarding the services sector in India:
Statement I : India's services sector growth has been largely driven by domestic demand rather than exports.
Statement II : Sub-sectors like public administration, defense, and trade dominate the services sector in terms of their contribution to GDP.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

78. A key challenge for rural development in India is:
(A) Over-investment in rural infrastructure leading to wastage.
(B) An excess of non-farm employment opportunities.
(C) High literacy rates leading to migration of all skilled labor.
(D) Lack of access to formal financial services and credit.

79. The policy of creating 'Satellite Towns' around large metropolitan cities is a response to which major urban challenge?
(A) Congestion and over-population in the main city.
(B) Lack of entertainment facilities in city centers.
(C) The decline of public transport systems.
(D) The need for more greenfield airport projects.

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80. Arrange the following events in the chronological order of their occurrence in India's trade policy:
1. Shift from import substitution to export promotion.
2. Introduction of quantitative restrictions on imports.
3. Establishment of Special Economic Zones (SEZs).
4. Devaluation of the Rupee as part of the 1991 reforms.
Which of the following represents the correct order?
(A) 2, 4, 1, 3
(B) 2, 1, 4, 3
(C) 1, 2, 3, 4
(D) 4, 3, 1, 2

81. A Public-Private Partnership (PPP) model for infrastructure development would be least suitable for which of the following?
(A) A national highway with a clear revenue stream from tolls.
(B) Core defense and national security installations.
(C) A power plant with a long-term power purchase agreement.

4. The reforms were implemented with uniform success and speed across all states.

Which of the statements given above are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

116. The 'escape clause' in the FRBM framework allows for a deviation from fiscal targets under specific circumstances, such as:
(A) A normal year with projected GDP growth.
(B) A need to increase salaries for government employees.
(C) A desire to win a forthcoming election.
(D) A national security threat or a national calamity.

117. 'Relative Poverty' is defined as:
(A) The condition where one cannot meet basic needs for survival.
(B) A poverty line fixed in terms of calories or income.
(C) The poverty level in relation to the overall standard of living in a society.
(D) The total number of people living in poverty.

118. Which of the following statements is incorrect?
(A) Frictional unemployment is temporary and occurs when people change jobs.
(B) Disguised unemployment means there are too few workers for the available work.
(C) Structural unemployment results from a long-term change in the economy's structure.
(D) Cyclical unemployment is associated with the ups and downs of the business cycle.

119. The most significant feature of the structural change in the Indian economy has been the:
(A) Consistent growth of agriculture's share in both GDP and employment.
(B) Decline of the services sector and the rise of the industrial sector.
(C) Equal contribution of all three sectors to both GDP and employment.
(D) Rapid growth of the services sector's share in GDP without a corresponding shift in employment.

120. Identify the major challenges confronting Indian agriculture from the following:
1. High dependence on the monsoon.
2. Low levels of farm mechanization.
3. Fragmentation of land holdings.
4. Inadequate agricultural marketing infrastructure.
5. A consistent surplus of farm labour across all regions.

Which of the statements given above are correct?
(A) 1, 2, and 4 only
(B) 1, 2, 3 and 4 only
(C) 3, 4 and 5 only
(D) 1, 2, 3, 4 and 5

121. The Industrial Policy Resolution of which year is often called the Economic Constitution of India?
(A) 1948
(B) 1977
(C) 1956
(D) 1991

122. Which pair is correctly matched?
(A) IT and Software Services: Financing, Insurance, Real Estate & Business Services
(B) BPO/KPO Services: Community and Social Services
(C) Public Administration & Defence: Key driver of service sector exports
(D) Retail Trade: Transport and Communication

123. A major 'pull' factor for rural-urban migration in India is:
(A) The prevalence of poverty and unemployment in rural areas.
(B) The lack of social amenities in rural areas.
(C) The pressure of population on land in rural areas.
(D) The perceived availability of better employment opportunities in cities.

124. The focus of the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) is on:
(A) Developing 100 Smart Cities.
(B) Creating basic urban infrastructure such as water supply, sewerage, and transport in cities.
(C) Providing universal housing for the urban poor.
(D) Developing heritage sites in urban areas.

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3. Lack of access to quality health and education facilities.
4. Pervasive disguised unemployment.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

91. The Housing for All by 2022 mission, also known as Pradhan Mantri Awas Yojana - Urban (PMAY-U), directly addresses which challenge of urban development?
(A) Traffic congestion
(B) Air pollution
(C) Lack of green spaces
(D) Urban housing shortage and slums

92. What does 'Import Substitution' as a trade policy strategy mean?
(A) A policy of promoting exports to pay for imports.
(B) A policy of replacing foreign imports with domestic production.
(C) A policy of importing only from a select group of countries.
(D) A policy of freely importing all goods and services.

93. What is 'social infrastructure'?
(A) Infrastructure that facilitates social gatherings, like community halls.
(B) The network of social relationships and norms in a society.
(C) Facilities and services that support the social development of a country, such as health and education.
(D) Digital platforms like social media networks.

94. Which statement about land reforms in India is incorrect?
(A) Tenancy reforms aimed to provide security of tenure to tenants.
(B) The Bhoodan and Gramdan movements were voluntary land gift movements.
(C) Consolidation of holdings aimed to reduce fragmentation.
(D) Land reforms have been uniformly and successfully implemented across all states.

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95. According to the Constitution of India, the Finance Commission makes recommendations on which of the following?
1. The distribution between the Union and the States of the net proceeds of taxes.
2. The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.
3. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats.
4. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities.
5. The setting of monetary policy and the repo rate.

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1 and 2 only
(D) 1, 2, 3, 4 and 5

96. 'Absolute Poverty' is typically defined as:
(A) A condition of having less income than the top 10% of the population.
(B) An income level below that needed for basic survival requirements.
(C) The feeling of being poor compared to one's neighbors.
(D) The inability to afford luxury goods.

97. Which type of unemployment is correctly paired with its common example in India?
(A) Cyclical Unemployment: A farmer being jobless during the off-season.
(B) Seasonal Unemployment: Agricultural labourers having no work between sowing and harvesting.
(C) Disguised Unemployment: A software engineer switching jobs and being jobless for a month.
(D) Structural Unemployment: A factory worker laid off due to a general recession in the economy.

98. One of the key drivers for the rapid growth of the modern services sector in India has been:
(A) The availability of a large, skilled, English-speaking workforce at a competitive cost.
(B) The abundance of natural resources.
(C) Heavy government subsidies for all service

(D) A commercial port with revenue from cargo handling.

82. What was the primary objective of the 'Abolition of Intermediaries' during the initial phase of land reforms in India?
(A) To bring tenants into direct contact with the state and make them owners of the land they tilled.
(B) To introduce large-scale corporate farming.
(C) To consolidate fragmented land holdings into viable farm sizes.
(D) To computerize all land records in the country.

83. Under which Article of the Constitution of India is the Finance Commission constituted?
(A) Article 360
(B) Article 110
(C) Article 280
(D) Article 324

84. Which of the following was NOT a target originally specified under the FRBM Act, 2003?
(A) To eliminate the revenue deficit.
(B) To reduce the fiscal deficit to 3% of GDP.
(C) To place limits on government borrowings.
(D) To maintain a fixed exchange rate for the Indian Rupee.

85. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Economic growth is a necessary but not a sufficient condition for poverty reduction.
Reason (R) : The benefits of economic growth may not percolate down to the poorest sections of society if inequality increases simultaneously.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

86. The structural change in the Indian economy post-1991 refers to:
(A) A rapid increase in the share of agriculture in GDP.
(B) A significant increase in the share of the services sector in GDP.
(C) A consistent decline in the country's GDP.
(D) The public sector replacing the private sector in all economic activities.

87. The fragmentation of landholdings in India is a major challenge primarily because it:
(A) Leads to an increase in the use of modern technology.
(B) Encourages crop diversification and risk mitigation.
(C) Results in equitable distribution of agricultural income.
(D) Hinders mechanization and makes farming economically unviable.

88. The 'Index of Industrial Production' (IIP) in India is a key economic indicator that measures:
(A) The volume of production in the industrial sector over a period.
(B) The profitability of industrial companies.
(C) The level of foreign direct investment in industry.
(D) The rate of unemployment in the industrial workforce.

89. Consider the following statements regarding the services sector in India:
Statement I : The services sector in India is highly heterogeneous, encompassing everything from street vendors to sophisticated software engineers.
Statement II : This heterogeneity implies that a single policy approach is sufficient for the entire services sector.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

90. Consider the following as potential issues in rural development in India:
1. Dependence on agriculture which is often seasonal and uncertain.
2. Poor connectivity and inadequate infrastructure.

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the 1980s, accelerated by the 1991 reforms.
(C) The services sector has emerged as the primary driver of growth in recent decades.
(D) The growth has been consistently led by the agricultural sector, which remains the largest contributor to GDP.

108. A major negative consequence of the Green Revolution in India was:
(A) A widespread decline in food grain production.
(B) Increased stress on water resources and soil degradation due to overuse of inputs.
(C) The creation of a perfectly equitable agrarian society.
(D) The complete abandonment of traditional farming practices.

109. What does the acronym MSME stand for in the context of Indian industry?
(A) Mega, Super, and Macro Enterprises
(B) Mines, Steel, and Manufacturing Enterprises
(C) Micro, Small, and Medium Enterprises
(D) Market, Sales, and Merchandising Entities

110. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : The growth of the services sector in India is often termed 'jobless growth'.
Reason (R) : The high-growth segments of the services sector, such as IT and financial services, are capital-intensive and skill-intensive, and do not create enough jobs for the low-skilled labor force.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

111. The Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) aims to alleviate rural poverty by:
(A) Organizing the rural poor into Self Help Groups (SHGs) and enabling them for livelihoods.
(B) Providing direct cash transfers to all rural households.
(C) Building large-scale industries in every village.
(D) Guaranteeing a government job for one member of every rural family.

112. The Smart Cities Mission in India was launched with the primary objective of:
(A) Building 100 new greenfield cities from scratch.
(B) Promoting cities that provide core infrastructure, a decent quality of life, and a clean and sustainable environment through 'smart' solutions.
(C) Providing free Wi-Fi in all urban areas of the country.
(D) Nationalizing all private properties within city limits.

113. Consider the following statements regarding India's foreign trade:
Statement I : The 'structure' of India's foreign trade refers to the commodity composition of its exports and imports.
Statement II : Over the years, the structure of India's exports has shifted from primary products to manufactured goods and services.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

114. Which of the following does NOT fall under the category of social infrastructure?
(A) Telecommunication towers
(B) Education system
(C) Healthcare facilities
(D) Sanitation services

115. Consider the following statements regarding land reforms in post-independence India:
1. The primary objective was to restructure the agrarian relations to achieve an egalitarian social structure.
2. Abolition of the Zamindari system was a major step.
3. Tenancy reforms aimed to provide security of tenure to the tillers.

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(B) 2 and 4 only
(C) 1 and 3 only
(D) 1, 2, 3 and 4

66. Consider the following statements regarding the Provision of Urban Amenities in Rural Areas (PURA):
Statement I : The Provision of Urban Amenities in Rural Areas (PURA) was a strategy that aimed at bridging the rural-urban divide.
Statement II : The core idea of PURA was to provide urban-like infrastructure and employment opportunities in rural clusters.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

67. The 'AMRUT' scheme launched by the Government of India stands for:
(A) Advanced Metropolitan Rail and Urban Transit.
(B) Affordable Mass-housing for Urban Tenants.
(C) Atal Mission for Rejuvenation and Urban Transformation.
(D) Agency for Metropolitan Renewal and Upgradation Tasks.

68. A deficit on the current account of the Balance of Payments indicates that:
(A) The country's exports of goods and services exceed its imports.
(B) The country is a net lender to the rest of the world.
(C) The country's foreign exchange reserves have increased.
(D) The country's imports of goods and services exceed its exports.

69. Which of the following pairs correctly links the infrastructure type with its classification?
(A) Telecommunication networks: Social Infrastructure
(B) Hospitals: Physical Infrastructure
(C) Power Plants: Physical Infrastructure
(D) Schools: Physical Infrastructure

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70. Consider the following actions as part of India's capital market reforms:
1. Establishment of the Securities and Exchange Board of India (SEBI) as a statutory body.
2. Introduction of screen-based electronic trading.
3. Introduction of rolling settlement.
4. Abolition of the Controller of Capital Issues (CCI).
5. Mandatory use of physical share certificates for all transactions.

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

71. 'Horizontal Devolution' as recommended by the Finance Commission refers to the:
(A) Distribution of tax proceeds between the Union and the States.
(B) Allocation of funds from the Centre to local bodies.
(C) Grants-in-aid given for specific centrally sponsored schemes.
(D) Formula-based distribution of the states' share of taxes among the states themselves.

72. The Lorenz Curve is a graphical representation of:
(A) The distribution of income or wealth in a population.
(B) The relationship between tax rates and tax revenue.
(C) The progress of a country on the Human Development Index over time.
(D) The rate of unemployment versus the rate of inflation.

73. Which of the following statements about unemployment in India is incorrect?
(A) Female labour force participation rate is significantly lower than that of males.
(B) Unemployment is more prevalent among the educated youth in urban areas.
(C) The informal sector is characterized by stable, high-wage employment.
(D) Underemployment is a major issue, especially in the agricultural sector.

125. Match the terms in List I with their meanings in List II:
List I: (Term)
P. Devaluation
Q. Tariff
R. Quota
S. Current Account Deficit
List II: (Meaning)
1. A quantitative limit on the import of a commodity.
2. When a country's total imports of goods, services, and transfers are greater than its total exports.
3. A tax imposed on imported goods.
4. The deliberate downward adjustment of a country's currency value against another currency.

Codes:
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

126. Consider the following statements regarding infrastructure:
Statement I : Physical infrastructure and social infrastructure are mutually exclusive and do not impact each other.
Statement II : Better social infrastructure, like education, can improve the quality of human capital required to build and maintain physical infrastructure.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

127. Which of the following is NOT an objective of recent labour market reforms in India?
(A) To increase the rigidity of hiring and firing norms for all firms.
(B) To facilitate ease of doing business.
(C) To expand social security coverage to unorganized sector workers.
(D) To simplify the legal framework by consolidating multiple laws.

128. The transfer of funds from the Centre to the States, as recommended by the Finance Commission, is an instrument to address:
(A) The balance of payments deficit.
(B) Vertical and horizontal fiscal imbalances.
(C) The rate of inflation.
(D) The level of foreign direct investment.

129. The Tendulkar Committee methodology for poverty estimation was a significant departure from previous methods because it:
(A) Used only a calorie-intake norm.
(B) Moved away from a calorie-based norm to a broader consumption basket including health and education expenditure.
(C) Recommended a universal basic income for all citizens.
(D) Estimated poverty only for urban areas.

130. Arrange the following Chairpersons of the Finance Commission of India in chronological order of their respective commissions (from earliest to latest):
1. Y. V. Reddy
2. N. K. Singh
3. Vijay Kelkar
4. K.(c) Neogy

Select the correct answer from the codes given below:
(A) 4, 1, 3, 2
(B) 4, 3, 1, 2
(C) 1, 3, 4, 2
(D) 3, 4, 1, 2

131. All of the following are structural features of the Indian economy ExCEPT:
(A) Dominance of the services sector in GDP.
(B) A large proportion of the workforce is still dependent on agriculture.
(C) A consistent trade surplus since independence.
(D) A large and growing informal sector.

132. The Minimum Support Price (MSP) in India is a form of:
(A) A loan waiver scheme for all farmers.
(B) A subsidy provided for purchasing farm equipment.
(C) A direct income support payment made to farmers regardless of production.
(D) Market intervention to protect farmers from

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Q. BOO (Build-Own-Operate)
R. EPC (Engineering, Procurement, Construction)
S. HAM (Hybrid Annuity Model)

List II: (Description)

1. The private player owns the asset in perpetuity and the public sector partner agrees to 'purchase' the goods and services produced.
2. The private entity builds, operates for a specified period, and then transfers the asset to the government.
3. A mix of EPC and BOT, where the government pays a part of the project cost upfront and the rest in annuities.
4. The private contractor is responsible for all activities from design to procurement and construction, up to a ready-to-use project for a fixed price.

Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-1, R-4, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

151. What is the 'gig economy' in the context of the labour market?
(A) A labour market characterized by permanent, full-time jobs with long-term contracts.
(B) A system where all workers are employed by the government.
(C) A market exclusively for artists and musicians.
(D) A system dominated by short-term freelance work and contracts.

152. Consider the following statements regarding the Finance Commission:
Statement I : The recommendations of the Finance Commission are mandatory and legally binding on the Government of India.
Statement II : The Constitution describes the Finance Commission as a body that makes recommendations to the President.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

153. In the Indian context, the official poverty line is primarily based on:
(A) The minimum daily protein intake.
(B) The average national income.
(C) The expenditure required for a minimum basket of goods and services.
(D) The international poverty line of $1.90 per day.

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154. Which of the following is NOT a measure to tackle unemployment in India?
(A) Increasing the repo rate to curb inflation.
(B) Promoting skill development through initiatives like Skill India Mission.
(C) Encouraging entrepreneurship through schemes like MUDRA.
(D) Implementing employment guarantee schemes like MGNREGA.

155. The high dependency ratio in India, resulting from a large young population, can be converted into a 'demographic dividend' if:
(A) The population growth rate is accelerated.
(B) The entire young population migrates to other countries.
(C) The economy shifts back to being primarily agrarian.
(D) The young population is provided with quality education, skills, and adequate employment opportunities.

156. A policy of providing high MSPs for wheat and rice while neglecting other crops like pulses and oilseeds can lead to:
(A) A balanced and diversified cropping pattern.
(B) A skewed cropping pattern favouring wheat and rice, and a deficit in other crops.
(C) A significant improvement in soil health and water conservation.
(D) A reduction in the government's food subsidy bill.

157. Which of the following is an incorrect statement regarding the MSME sector in India?
(A) It contributes significantly to employment generation.
(B) It plays a vital role in exports and manufacturing output.

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141. The task force on employment and unemployment was set up by the Planning Commission under the chairmanship of:
(A) B. S. Minhas
(B) V. M. Dandekar
(C) M. L. Dantwala
(D) P. C. Mahalanobis

142. Which of the following pairs is correctly matched?
(A) Head Count Ratio: The intensity of poverty.
(B) Poverty Gap Index: The number of poor people.
(C) Lorenz Curve: A measure of absolute poverty.
(D) Squared Poverty Gap: Measures the severity of poverty by giving more weight to the poorest.

143. 'Economic Growth' is best defined as:
(A) A sustained increase in a country's real per capita income or real GDP.
(B) The equitable distribution of resources within an economy.
(C) The structural transformation from agriculture to industry.
(D) The improvement in the quality of life and human development indicators.

144. The e-NAM (National Agriculture Market) platform aims to overcome which major challenge in Indian agriculture?
(A) Low crop yields
(B) Fragmentation of markets and lack of transparent price discovery
(C) Water scarcity
(D) Lack of farm credit

145. Consider the following factors:
1. Managerial incompetence and poor project implementation.
2. Inadequate and delayed availability of finance.
3. Obsolete technology and failure to innovate.
4. Favorable and excessively flexible labour laws.
5. Lack of demand and market recession.

Which of the above are considered major causes of industrial sickness in India?
(A) 1, 2, 3 and 5 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 4 only
(D) 1, 2, 3, 4 and 5

146. The concept of 'leapfrogging' in the context of India's growth pattern implies:
(A) The services sector growing to a dominant position without a robust manufacturing sector-led growth phase.
(B) A gradual and sequential shift from agriculture to industry, and then to services.
(C) The agricultural sector consistently outperforming the industrial and services sectors.
(D) A decline in all three sectors of the economy simultaneously.

147. The most holistic approach to rural development would involve:
(A) Focusing solely on increasing agricultural productivity.
(B) Promoting only large-scale industries in rural areas.
(C) A multi-pronged strategy focusing on agriculture, infrastructure, health, education, and non-farm employment.
(D) Providing unconditional cash transfers as the only policy instrument.

148. Which statement about urban development policies in India is incorrect?
(A) The Smart Cities Mission focuses on using technology to improve urban living.
(B) AMRUT aims to provide basic services like water supply and sewerage.
(C) PMAY(U) addresses the urban housing shortage.
(D) All urban development schemes are exclusively funded by the central government with no state contribution.

149. The ExIM (Export-Import) Policy in India is now formulated as part of the:
(A) Annual Union Budget
(B) Monetary Policy Statement
(C) Foreign Trade Policy
(D) Five-Year Plans

150. Match the PPP models in List I with their descriptions in List II:
List I: (PPP Model)
P. BOT (Build-Operate-Transfer)

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sharp price falls.

133. A major challenge for industrial growth in India is:
(A) An oversupply of skilled labor.
(B) The lack of domestic demand.
(C) Issues related to land acquisition and environmental clearances.
(D) Excessively low corporate tax rates leading to low government revenue.

134. The term 'tertiary sector' of the economy is synonymous with the:
(A) Agricultural sector
(B) Services sector
(C) Industrial sector
(D) Unorganized sector

135. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : There exists a significant development divide between rural and urban India.
Reason (R) : Urban areas generally have better access to infrastructure, health, education, and non-farm employment opportunities compared to rural areas.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

136. The phenomenon of urban sprawl poses a challenge primarily because it leads to:
(A) Encroachment on agricultural land and increased pollution from longer commutes.
(B) Efficient use of land and public transport.
(C) Lower infrastructure costs per capita.
(D) Increased density in the city core, making it more vibrant.

137. Which statement about the flow of foreign capital to India is incorrect?
(A) Post-1991 reforms led to a significant increase in foreign capital inflows.
(B) Foreign Direct Investment (FDI) is generally preferred over Foreign Portfolio Investment (FPI) for its stability.
(C) FDI and FPI are both components of the current account of the Balance of Payments.
(D) The government has progressively liberalized the FDI policy across various sectors.

138. How does inadequate infrastructure development impede economic growth?
(A) By creating bottlenecks, increasing transaction costs, and reducing competitiveness.
(B) By increasing the efficiency of supply chains and logistics.
(C) By lowering the costs of production and distribution for businesses.
(D) By attracting more foreign investment into the country.

139. Consider the following statements regarding capital market reforms:
Statement I : The abolition of the Controller of Capital Issues (CCI) allowed companies to price their equity issues based on market perception.
Statement II : This reform was a move away from a control-based regime to a market-based regime for raising capital.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

140. Consider the following statements regarding the FRBM framework:
1. Reduction of the central government's fiscal deficit.
2. Elimination of the revenue deficit.
3. Ensuring inter-generational equity in fiscal management.
4. Setting an inflation target for the Reserve Bank of India.

Which of the statements given above are objectives of the FRBM framework?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

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(C) It has easy and widespread access to formal credit and advanced technology.
(D) The definition of MSMEs is based on investment and turnover criteria.

158. Which sub-sector of services has been the most significant contributor to India's export basket in recent years?
(A) Shipping and transport services
(B) Tourism and hospitality
(C) Government and public administration services
(D) Software and I.T. enabled services (ITeS)

159. What is a Self-Help Group (SHG) in the context of rural development?
(A) A small voluntary association of people solving common problems via mutual help.
(B) A large private corporation that provides jobs in rural areas.
(C) A government agency for rural infrastructure development.
(D) A political party focused on rural issues.

160. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Unplanned and rapid urbanisation in India has led to severe stress on urban infrastructure.
Reason (R) : The pace of urban infrastructure creation has not kept pace with the rate of urban population growth, leading to challenges in housing, water, and sanitation.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

161. 'Convertibility on the Current Account' for the Indian Rupee means:
(A) The freedom to convert rupees into foreign currency for any purpose, including capital asset transactions.
(B) The freedom to convert rupees into foreign currency for trade in goods and services and other specified current transactions.
(C) The value of the rupee is fixed by the RBI.
(D) The import and export of Indian currency is completely prohibited.

162. The primary rationale for adopting Public-Private Partnerships (PPPs) in infrastructure is to:
(A) Combine the public sector's social objectives with the private sector's efficiency and capital.
(B) Completely privatize all public services.
(C) Provide government funding for private sector projects.
(D) Reduce the role of the government in the economy to zero.

163. Consider the following statements regarding land administration and reforms in India:
Statement I : The computerization of land records was initiated to improve the efficiency and transparency of the land administration system.
Statement II : The success of land reforms like the imposition of ceilings was limited due to poor implementation and legal hurdles.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

164. The fiscal deficit represents the:
(A) Difference between revenue expenditure and revenue receipts.
(B) Total borrowings of the government.
(C) Difference between total exports and total imports.
(D) Difference between the government's total expenditure and its total receipts excluding borrowings.

165. The Multidimensional Poverty Index (MPI), as used by organizations like the UNDP, considers which of the following dimensions?
1. Health
2. Education
3. Standard of Living
4. Per Capita Income
Which of the statements given above are correct?

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(C) Ensure that only public sector companies could operate in certain sectors.
(D) Force all industries to locate in rural areas.

183. The growth of India's services sector has been attributed to several factors. Which of the following is NOT a primary driver?
(A) A large pool of skilled, English-speaking manpower.
(B) The IT revolution and telecom reforms.
(C) Increased demand for services from a growing manufacturing sector and a rising middle class.
(D) A policy of high tariff protection for service imports.

184. The most pervasive and persistent challenge for rural development in India is:
(A) The problem of poverty and lack of diversified livelihood opportunities.
(B) The complete absence of a banking system.
(C) The over-mechanization of agriculture.
(D) The construction of too many rural roads.

185. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Public-Private Partnerships (PPPs) are promoted as an effective tool for infrastructure development in India.
Reason (R) : PPPs are always less expensive than traditional government procurement and are completely free from risks like cost overruns and delays.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

186. Which of the following statements about India's trade policy is incorrect?
(A) India has consistently maintained a current account surplus since 1991.
(B) Pre-1991 policy was characterized by an inward-looking, import-substitution strategy.
(C) Post-1991 policy shifted towards greater integration with the global economy.
(D) Special Economic Zones (SEZs) were created to provide an internationally competitive, duty-free environment for export production.

187. What is the Hybrid Annuity Model (HAM) in infrastructure projects?
(A) A model where the government bears 100% of the construction cost.
(B) A model where the private developer bears 100% of the construction cost.
(C) A model exclusively for social infrastructure projects.
(D) A mix of EPC and BOT models, where the government and the private player share the project cost.

188. Consider the following statements regarding financial markets:
Statement I : A primary market is where securities are created and sold for the first time.
Statement II : A secondary market is where previously issued securities are traded among investors.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

189. The FRBM Review Committee (2017) was headed by:
(A) Vijay Kelkar
(B) C. Rangarajan
(C) N. K. Singh
(D) Y. V. Reddy

190. Consider the following as potential causes of unemployment in India:
1. Slow growth of employment opportunities in the formal sector.
2. Mismatch between skills possessed by the workforce and skills demanded by the industry.
3. The seasonal nature of agriculture.
4. A rapidly growing labor force.

Which of the statements given above are correct?
(A) 1 and 2 only

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175. Match the New Labour Codes in List I with their primary subject matter in List II:

List I: (New Labour Code)

P. The Code on Wages, 2019

R. The Industrial Relations Code, 2020

S. The Code on Social Security, 2020

T. The Occupational Safety, Health and Working Conditions Code, 2020

List II: (Subject Matter)

1. Consolidates laws on social security and maternity benefits.
2. Regulates wages, bonus, and equal remuneration.
3. Regulates health and safety conditions in establishments.
4. Deals with trade unions, industrial disputes, and conditions of employment.

Codes:

(A) P-1, R-2, S-3, T-4

(B) P-2, R-4, S-1, T-3

(C) P-2, R-3, S-4, T-1

(D) P-4, R-1, S-2, T-3

176. Which statement regarding the Finance Commissions of India is incorrect?

(A) It is a quasi-judicial body.

(B) Its recommendations are limited to the distribution of only income tax between the Centre and States.

(C) It is constituted by the President every fifth year or at such earlier time as he considers necessary.

(D) It also recommends principles for grants-in-aid to the states.

177. Consider the following statements regarding the Kuznets curve:

Statement I : The Kuznets curve hypothesis suggests that as an economy develops, market forces first increase and then decrease economic inequality.

Statement II : India's development experience has perfectly followed the inverted U-shape of the Kuznets curve.

(A) Both Statement I and Statement II are correct.

(B) Both Statement I and Statement II are incorrect.

(C) Statement I is correct, but Statement II is incorrect.

(D) Statement I is incorrect, but Statement II is correct.

178. The Labour Force Participation Rate (LFPR) is defined as:

(A) The number of persons in the labour force (employed or unemployed) as a percentage of the working-age population.

(B) The number of employed persons as a percentage of the total population.

(C) The number of unemployed persons as a percentage of the labour force.

(D) The number of persons in the organized sector as a percentage of the total workforce.

179. The strategy of 'inclusive growth' was the central theme of which Five-Year Plan in India?

(A) First Five-Year Plan

(B) Sixth Five-Year Plan

(C) Eleventh Five-Year Plan

(D) Eighth Five-Year Plan

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180. Arrange the following events in Indian economic history in the correct chronological sequence:

1. Nationalisation of 14 major commercial banks.
2. Establishment of the Planning Commission.
3. Introduction of the New Economic Policy (LPG Reforms).
4. Enactment of the FRBM Act.

Which of the following is the correct order?

(A) 2, 1, 3, 4

(B) 1, 2, 3, 4

(C) 2, 3, 1, 4

(D) 1, 3, 2, 4

181. The Pradhan Mantri Fasal Bima Yojana (PMFBY) is a policy response designed to address which major challenge for farmers?

(A) Lack of access to markets.

(B) Low prices for agricultural produce.

(C) Crop failure due to natural calamities, pests, and diseases.

(D) Lack of irrigation facilities.

182. The policy of 'delicensing' of industries, a key feature of the 1991 reforms, was intended to:

(A) Increase government control over industrial production.

(B) Promote competition and remove bureaucratic hurdles for setting up new industries.

(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 4 only
(D) 1, 2, 3 and 4

166. Which of the following pairs is incorrectly matched?
(A) Seasonal Unemployment: Sugarcane harvesting labour
(B) Cyclical Unemployment: A graduate who cannot find a job due to a lack of skills.
(C) Frictional Unemployment: An IT professional between two jobs
(D) Structural Unemployment: A handloom weaver losing work due to power looms

167. The acceleration in India's economic growth rate from the 1980s, even before the 1991 reforms, is sometimes attributed to:
(A) The success of the Green Revolution.
(B) A massive inflow of foreign aid.
(C) The nationalization of banks.
(D) A pro-business tilt in government policy and expansionary fiscal policy.

168. Sources of institutional agricultural credit in India include all of the following ExCEPT:
(A) Unregistered local moneylenders
(B) Commercial Banks
(C) Regional Rural Banks (RRBs)
(D) Cooperative Banks

169. In the context of India's PSUs, the 'Navratna' status grants a company:
(A) The freedom to be privatized completely.
(B) A monopoly in its respective sector.
(C) Enhanced financial and operational autonomy to compete globally.
(D) A complete tax exemption.

170. Consider the following statements about the challenges of India's services-led growth:
1. It has created a dualistic economy with a high-productivity formal segment and a low-productivity informal segment.
2. The job creation in the formal services sector has been inadequate for the large, low-skilled workforce.
3. The growth has been highly dependent on external demand, making it vulnerable to global shocks.
4. It has not been able to absorb surplus labor from agriculture effectively.
5. It has led to a balanced regional development across the country.

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

171. The Pradhan Mantri Gram Sadak Yojana (PMGSY) is a nationwide program to provide:
(A) Housing for the rural poor.
(B) Electricity to all rural households.
(C) Internet connectivity in every village.
(D) All-weather road connectivity to unconnected habitations.

172. A key challenge in urban development in India is related to the governance structure of Urban Local Bodies (ULBs), which often suffer from:
(A) An excess of financial resources and autonomy.
(B) A lack of functions, funds, and functionaries.
(C) The absence of any elected representatives.
(D) A complete overlap with rural panchayat institutions.

173. What has been a major effect of trade liberalisation on the structure of India's imports since 1991?
(A) A drastic reduction in all imports to zero.
(B) A shift in imports from capital goods and raw materials towards finished consumer goods.
(C) A shift in import composition, with capital goods, raw materials, and intermediates forming a large part to support domestic industry.
(D) India stopping the import of crude oil.

174. Building schools and hospitals is considered an investment in 'social infrastructure' because it:
(A) Directly increases industrial output.
(B) Provides immediate profits to the government.
(C) Is less expensive than building roads and ports.
(D) Enhances the skills, health, and productivity of the population (human capital).

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(B) 3 and 4 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

191. A higher Gini coefficient signifies:
(A) Higher income inequality.
(B) Higher income equality.
(C) A higher rate of economic growth.
(D) A lower level of poverty.

192. If a country's GDP has 15% share from agriculture, 25% from industry, and 60% from services, its economic structure can be best described as:
(A) Agrarian
(B) Service-oriented
(C) Industrial
(D) Underdeveloped

193. The major problem with the APMC (Agricultural Produce Market Committee) system that policy responses like e-NAM seek to address is:
(A) Its role in providing high-quality seeds to farmers.
(B) The creation of market fragmentation and monopoly power, preventing farmers from getting the best prices.
(C) Its success in creating a single national market for all commodities.
(D) Its focus on promoting only organic farming.

194. In post-liberalisation India, the location of many new industries, especially in the knowledge-based sector, is increasingly influenced by:
(A) Availability of skilled human capital and quality infrastructure.
(B) Proximity to raw material sources.
(C) Government mandates forcing location in backward areas.
(D) Proximity to sea ports only.

195. Consider the following policy responses aimed at rural development in India:
1. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
2. Pradhan Mantri Gram Sadak Yojana (PMGSY)
3. National Rural Livelihood Mission (NRLM)
4. Pradhan Mantri Awas Yojana - Gramin (PMAY-G)
5. Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

196. Which of the following is an incorrect statement about the challenges of urbanization in India?
(A) It leads to increased pressure on public services like water supply, sanitation, and solid waste management.
(B) A large part of the urban population lives in slums or informal settlements with poor living conditions.
(C) Urban transport systems are under severe strain due to a rising number of private vehicles.
(D) Urbanization in India has led to a significant decrease in overall poverty levels.

197. The 'Balance of Trade' refers to:
(A) The total balance of the country's capital and current accounts.
(B) The total flow of foreign capital into and out of the country.
(C) The difference between the value of a country's visible exports and visible imports.
(D) The balance of government revenue and expenditure.

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198. Consider the following statements regarding the formalisation of the economy:
Statement I : One of the objectives of labour market reforms in India is to encourage formalisation of the economy.
Statement II : Formalisation is desirable as it provides workers with social security benefits and legal protection.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

199. The 'Bhoodan Movement', a voluntary land reform movement in India, was initiated by:

(A) Mahatma Gandhi
(B) Jawaharlal Nehru
(C) Sardar Vallabhbhai Patel
(D) Vinoba Bhave

200. Match the Finance Commissions in List I with their Chairpersons in List II:
List I: (Finance Commission)
P. Twelfth Finance Commission
Q. Thirteenth Finance Commission
R. Fourteenth Finance Commission
S. Fifteenth Finance Commission
List II: (Chairperson)
1. Vijay L. Kelkar
2. N. K. Singh
3. C. Rangarajan
4. Y. V. Reddy
Codes:
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-2, S-1
(D) P-4, Q-3, R-1, S-2

201. The FRBM Act's focus on eliminating the Revenue Deficit is based on the principle that:
(A) The government should always have a revenue surplus.
(B) All government expenditure should be capital expenditure.
(C) The government should not borrow to finance its consumption expenditure.
(D) Borrowing should only be used to pay interest on past debts.

202. Which of the following is primarily an employment generation programme and not a direct food security programme?
(A) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
(B) Public Distribution System (PDS)
(C) Antyodaya Anna Yojana (AAY)
(D) National Food Security Act (NFSA)

203. The term 'underemployment' refers to a situation where:
(A) A person is not able to find any work at all.
(B) A person is unemployed due to a recession.
(C) A person is temporarily out of work while changing jobs.
(D) A person is working but their work does not utilize their full skill or time.

204. The term 'Jobless Growth' refers to a situation where:
(A) The unemployment rate increases while the economy contracts.
(B) The economy grows but the rate of employment creation is low or nil.
(C) Both GDP and employment grow at the same high rate.
(D) The economy is stagnant and no new jobs are created.

205. To address the challenge of price volatility for perishable horticultural crops, the most appropriate policy response would be:
(A) Increasing the MSP for wheat and rice.
(B) Providing more fertilizer subsidies.
(C) Developing cold storage chains and food processing industries.
(D) Increasing the import of horticultural products.

206. Which of the following was NOT a feature of the New Industrial Policy of 1991?
(A) Abolition of industrial licensing for most industries.
(B) Liberalisation of foreign investment policy.
(C) Introduction of the concept of disinvestment of public sector equity.
(D) Increased role for the public sector and reservation of more industries for it.

207. The growth of the telecom and IT sectors in India significantly boosted the overall services sector growth. This is an example of:
(A) The impact of policy reforms and technological advancements.
(B) Backward linkages from manufacturing.
(C) The decline in agricultural productivity.
(D) A government-mandated shift of resources.

208. The 'Saansad Adarsh Gram Yojana' (SAGY) involves:
(A) Providing a pension to all senior citizens in rural areas.
(B) Members of Parliament adopting and developing model villages.
(C) Building a stadium in every village.
(D) A scheme for promoting rural tourism.

209. Transit-Oriented Development (TOD) is an urban planning concept that focuses on:

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(A) Building more highways to connect suburban areas.
(B) Creating compact, walkable, mixed-use communities centered around high-quality train systems.
(C) Providing parking space for every household in the city.
(D) Shifting all commercial activities to the city outskirts.

210. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : Since the 1991 reforms, the share of manufactured goods in India's export basket has increased significantly.
Reason (R) : The trade policy shift towards liberalization and export promotion encouraged industrial growth and diversification of exports away from traditional primary commodities.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

211. Which of the following is correctly paired?
(A) Physical Infrastructure: Public health
(B) Social Infrastructure: Port facilities
(C) Physical Infrastructure: Power transmission lines
(D) Social Infrastructure: National highways

212. Consider the following statements regarding tenancy reforms:
Statement I : Tenancy reforms in India aimed at regulating rent and providing security of tenure to the tenants.
Statement II : The ultimate goal of the Land to the Tiller policy was to make the actual cultivators the owners of the land.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

213. What does a Revenue Deficit signify?
(A) The government's total borrowings in a year.
(B) The government is spending less than it is earning in revenue.
(C) The excess of the government's revenue expenditure over its revenue receipts.
(D) The deficit in the country's balance of payments.

214. Using a Multidimensional Poverty Index (MPI) instead of a purely income-based measure is considered an improvement because:
(A) It is easier and cheaper to calculate.
(B) It captures the various deprivations faced by poor people in terms of health, education, and living standards.
(C) It always shows a lower number of poor people.
(D) It focuses only on the psychological aspects of being poor.

215. Consider the following situations:
1. A farm labourer is without work during the dry season.
2. An auto factory worker is laid off due to a nationwide recession.
3. Five persons are working on a farm that needs only three.
4. A recent college graduate is searching for her first job.

Which of these represent Seasonal, Cyclical, Disguised, and Frictional unemployment, respectively?
(A) 1, 2, 3, 4
(B) 2, 1, 4, 3
(C) 1, 3, 2, 4
(D) 4, 3, 1, 2

216. A major feature of India's economic growth pattern is that the share of the industrial sector in total employment has:
(A) Remained relatively stagnant and low.
(B) Grown to over 50%.
(C) Surpassed the share of agriculture in employment.
(D) Declined to almost zero.

217. The Price Deficiency Payment System as a policy response in agriculture involves:
(A) The government procuring all crops at a

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global competitiveness, this growth faces major challenges. One significant challenge is the issue of skill gaps, where the education system does not produce enough graduates with the specific skills required by high-growth service industries. Another challenge is the dualistic nature of the sector, with a small, highly productive formal segment and a large, low-productivity informal segment. Policy responses have been directed towards bridging these gaps, focusing on skill development programs, promoting digital infrastructure through initiatives like 'Digital India', and improving the regulatory environment to foster growth in areas like tourism and logistics, thereby aiming for a more broad-based and inclusive expansion of the services sector.

Based on the above source, attempt the following five questions.

261. What is the primary role of the services sector in the Indian economy as described in the passage?
(A) It is the largest employer of the country's workforce.
(B) It primarily supports the agricultural sector through traditional services.
(C) Its growth is completely dependent on the industrial sector's performance.
(D) It acts as the main driver of economic growth and the largest contributor to GDP.

262. The passage describes the structure of India's services sector as:
(A) Uniform and homogenous, with all sub-sectors growing at the same rate.
(B) Heterogeneous, with both high-skill modern segments and low-skill traditional ones.
(C) Primarily composed of government and public administration services.
(D) Dominated by low-skill, traditional activities with little global integration.

263. Which of the following is identified as a major challenge for the Indian services sector?
(A) A lack of global competitiveness in the information technology sub-sector.
(B) An excessive regulatory burden that stifles all service-based innovation.
(C) A mismatch between the skills of the workforce and the demands of the industry.
(D) A declining contribution to the nation's Gross Domestic Product.

264. The 'dualistic nature' of the services sector, as mentioned in the passage, refers to:
(A) The equal contribution of rural and urban areas to service sector output.
(B) The competition between domestic and foreign service providers.
(C) The balance between public sector and private sector service enterprises.
(D) The co-existence of a highly productive formal segment and a large informal segment.

265. Policy responses for the services sector, according to the passage, are aimed at what primary objective?
(A) Promoting a more inclusive expansion by addressing skill gaps and infrastructure.
(B) Limiting the growth of the information technology sector.
(C) Encouraging the shift of workers from services back to agriculture.
(D) Increasing the dominance of the informal segment within the sector.

Direction : Please read the following source carefully.

The Indian agricultural sector, despite a declining share in the national GDP, remains a critical component of the economy due to its role in ensuring food security and providing livelihoods for a majority of the rural population. The pattern and structure of its growth have been uneven, marked by the successes of the Green Revolution but now confronting major challenges. A primary challenge is the persistence of low productivity, stemming from factors like fragmented land holdings, excessive dependence on monsoons, and outdated farming techniques. Furthermore, issues related to post-harvest management, including inadequate storage and inefficient supply chains, lead to significant losses. Market access for farmers is another critical challenge, often hindered by intermediaries and a lack of transparent price discovery mechanisms. In response to these multifaceted challenges, a range of policy responses have been implemented. These include price support mechanisms like the Minimum Support Price (MSP), efforts to improve irrigation, and the promotion of agricultural credit. More recent policy interventions focus on creating a national market for agricultural

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(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

226. Consider the following statements regarding disguised unemployment:
Statement I : Disguised unemployment is characterized by zero or very low marginal productivity of labour.
Statement II : It is a common feature of urban, organized industrial sectors where labour unions are strong.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

227. The 'Kuznets's structural transformation' theory posits that as an economy develops:
(A) The share of services in GDP and employment declines.
(B) The share of agriculture in GDP and employment increases.
(C) The share of agriculture in GDP declines while shares of industry and services increase.
(D) The entire economy shifts to the informal sector.

228. The Kisan Credit Card (KCC) scheme was launched as a policy response to address which challenge in Indian agriculture?
(A) Poor soil health.
(B) Post-harvest losses.
(C) Lack of crop insurance.
(D) Lack of timely and adequate credit for farmers.

229. The government's policy of disinvestment in Public Sector Undertakings (PSUs) is primarily aimed at:
(A) Increasing government control and ownership in these companies.
(B) Shutting down all PSUs permanently.
(C) Improving efficiency, unlocking value, and raising resources for the government.
(D) Preventing private sector participation in the economy.

230. Arrange the following policies/acts in chronological order of their first enactment/ launch:
1. Industrial Policy Resolution (Mahalanobis model)
2. Green Revolution (beginning phase)
3. New Economic Policy (LPG)
4. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

Which of the following represents the correct sequence?
(A) 1, 2, 3, 4
(B) 2, 1, 3, 4
(C) 1, 3, 2, 4
(D) 2, 3, 1, 4

231. In the post-liberalisation era, the direction of India's foreign trade has seen a significant shift. Which of the following is NOT a feature of this shift?
(A) A decline in the share of OECD countries.
(B) A significant increase in the share of trade with East Asian countries and China.
(C) A diversification of export destinations.
(D) An almost exclusive reliance on the UK and USA as trade partners.

232. Investment in social infrastructure like health and education is critical for long-term economic growth because it:
(A) Improves human capital, which boosts productivity and innovation.
(B) Provides quick financial returns to the government.
(C) Directly reduces the fiscal deficit.
(D) Is the only way to attract foreign tourists.

233. Which of the following statements about the consolidation of land holdings in India is incorrect?
(A) It aims to bring together fragmented pieces of land into a single, more viable plot.
(B) It facilitates better planning of irrigation and mechanization.
(C) It has been made compulsory and has been successfully completed in all states of India.
(D) The process has been slow and has faced resistance from farmers in many areas.

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(C) Disguised unemployment and lack of infrastructure.
(D) Over-investment in urban infrastructure projects.

272. The passage suggests that a policy response like MGNREGA is primarily intended to address:
(A) The challenges of rapid urbanization and slum proliferation.
(B) The lack of employment opportunities and infrastructure in rural areas.
(C) The issue of traffic congestion in major metropolitan cities.
(D) The need for technological upgrades in urban governance.

273. According to the passage, a key issue associated with urban development in India is:
(A) A decline in rural-to-urban migration.
(B) The over-availability of public utilities and housing.
(C) A surplus of planned, sustainable urban centres.
(D) The strain on infrastructure due to rapid urbanization.

274. The Smart Cities Mission is presented in the text as a policy response aimed at:
(A) Upgrading urban infrastructure and improving city governance.
(B) Creating durable assets in agricultural communities.
(C) Providing a social safety net for the rural unemployed.
(D) Halting migration from rural to urban areas completely.

275. What is the nature of the relationship between rural and urban challenges as described in the passage?
(A) They are entirely separate and require isolated policy solutions.
(B) Urban development challenges are the primary cause of all rural issues.
(C) They are interconnected, with rural distress often contributing to urban problems.
(D) Rural development policies have no impact on urban areas.

Direction : Please read the following source carefully.

The dynamics of India's foreign trade have evolved significantly over the past few decades, reflecting changes in the domestic economy and global integration. The structure of trade, which refers to the composition of exports and imports, has shifted from being dominated by primary commodities to a more diversified basket that includes manufactured goods and, notably, services. The direction of trade has also transformed, with a discernible pivot from traditional trading partners in Europe and North America towards countries in Asia and other developing regions. This changing landscape directly impacts India's Balance of Payments (BOP). While India has historically run a deficit on the trade account (i.e., imports of goods exceeding exports), this is often counterbalanced by a surplus on the invisibles account, driven by software service exports and remittances. The capital account of the BOP is influenced by the flow of foreign capital, which includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). Trade policies are instrumental in shaping this entire framework, moving from a restrictive, inward-looking stance to a more open, liberalized regime aimed at promoting exports and attracting foreign capital to finance the current account deficit and foster economic growth.

Based on the above source, attempt the following five questions.

276. What major shift has occurred in the 'structure' of India's foreign trade?
(A) A move from a primary commodity-based trade to one including manufactured goods and services.
(B) A shift from exporting manufactured goods to exporting primary commodities.
(C) A transition from a diversified basket to one dominated by agricultural products.
(D) An increased reliance on importing services while exporting manufactured goods.

277. The 'direction' of India's trade has seen a pivot towards which group of countries?
(A) Exclusively towards North American nations.
(B) A complete withdrawal from trade with European partners.

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242. The primary rationale for adopting Public-Private Partnerships (PPPs) in infrastructure is to:
(A) Combine the public sector's social objectives with the private sector's efficiency and capital.
(B) Completely privatize all public services.
(C) Provide government funding for private sector projects.
(D) Reduce the role of the government in the economy to zero.

243. Which of the following is not a criterion typically used by Finance Commissions for horizontal tax devolution?
(A) Population
(B) Area
(C) Number of metropolitan cities in a state
(D) Forest Cover

244. A lack of access to education and health services is a major cause of poverty because it:
(A) Increases the tax burden on the poor.
(B) Directly causes natural calamities.
(C) Leads to a decrease in the overall population.
(D) Inhibits the development of human capital needed for sustainable livelihood earnings.

245. Consider the following potential policy responses aimed at tackling unemployment in India:
1. Skill India Mission
2. Make in India initiative
3. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
4. MUDRA Yojana for entrepreneurship
5. Increasing the Cash Reserve Ratio (CRR)

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

246. As per the Code on Social Security, 2020, a 'gig worker' is a person who:
(A) Holds a permanent job in a government office.
(B) Performs work or participates in a work arrangement and earns from such activities outside of a traditional employer-employee relationship.
(C) Owns a large factory with more than 100 employees.
(D) Is a full-time farmer cultivating their own land.

247. Consider the following statements regarding rural development:
Statement I : Rural development in India faces the challenge of a 'dual economy', with a modern, commercial agricultural sector coexisting with a large subsistence farming sector.
Statement II : This dualism contributes to inequality and makes uniform policy implementation difficult.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

248. The Current Account of India's BOP includes:
(A) Trade in goods (visibles), trade in services (invisibles), and transfer payments.
(B) Foreign Direct Investment and Foreign Portfolio Investment.
(C) External borrowings and external assistance.
(D) Changes in foreign exchange reserves.

249. National highways, railway lines, and ports are considered 'physical infrastructure'. Their development is crucial for an economy primarily because they:
(A) Directly improve literacy rates.
(B) Provide housing to the entire population.
(C) Reduce transaction and transportation costs, thereby integrating markets and boosting trade.
(D) Are the only determinant of social status.

250. The overarching goal of the reforms in India's land, labour, and capital markets since 1991 has been to:
(A) Transition from a state-led, control-based system to a more efficient, market-oriented system.
(B) Increase government control and regulation in all these markets.

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234. The implementation of the FRBM Act is intended to have what effect on the macro-economy?
(A) Improve the fiscal health of the government and create a stable macroeconomic environment conducive to investment.
(B) Increase inflation by encouraging government spending.
(C) Crowd out private investment by increasing government borrowing.
(D) Devalue the currency by increasing the fiscal deficit.

235. Given below are two statements: one is labelled as Assertion (A) and the other is labelled as Reason (R). Select the correct answer from the options given below:
Assertion (A) : High levels of inequality can be detrimental to sustainable economic growth.
Reason (R) : Inequality can lead to social and political instability, and it can prevent a large section of the population from participating in and contributing to economic growth.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

236. In India, the female Labour Force Participation Rate (LFPR) is:
(A) Higher than the male LFPR.
(B) Significantly lower than the male LFPR.
(C) Almost equal to the male LFPR.
(D) Not measured by official surveys.

237. 'Viability Gap Funding' (VGF) in the context of infrastructure projects refers to:
(A) A loan given to cover the entire project cost.
(B) Funding provided by a foreign government.
(C) A one-time government grant to make a PPP project commercially viable.
(D) A penalty imposed for not completing a project on time.

238. Consider the following statements regarding post-1991 growth:
Statement I : India's post-1991 growth has been marked by a significant increase in the contribution of the external sector (trade).
Statement II : The ratio of trade (exports + imports) to GDP has remained consistently low since the 1991 reforms.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

239. The 'Rainbow Revolution' in Indian agriculture refers to:
(A) An integrated development of crop cultivation, horticulture, forestry, fishery, poultry, animal husbandry and food processing.
(B) A focus on only one specific crop.
(C) The use of colourful fertilizers.
(D) A revolution in marketing agricultural products.

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240. Consider the following as potential features of Special Economic Zones (SEZs) in India:
1. They are treated as foreign territory for the purpose of trade operations, duties and tariffs.
2. They aim to attract foreign investment and boost exports.
3. Units in SEZs are given various tax concessions and operate in a more liberal regulatory environment.
4. They are primarily intended to serve the domestic market (DTA).

Which of the statements given above are correct?
(A) 1, 2 and 3 only
(B) 2 and 4 only
(C) 1 and 3 only
(D) 1, 2, 3 and 4

241. The 74th Constitutional Amendment Act is a significant policy response related to:
(A) Rural development by strengthening Panchayats.
(B) Urban development by empowering Urban Local Bodies (Municipalities).
(C) Centre-State financial relations.
(D) Land reforms.

has undergone a significant evolution in its pattern and structure of growth. The initial phase was characterized by a strategy of import-substituting industrialization, with a strong emphasis on the development of heavy industries and a dominant role for the public sector. However, the post-1991 reforms marked a paradigm shift, dismantling industrial licensing and opening the sector to private and foreign participation. This led to a diversification of the industrial base and an increase in competitiveness. Despite these policy responses, the sector continues to face major challenges that impede its potential. These include inadequate physical infrastructure, such as power and logistics, which increases operational costs. Furthermore, complex regulatory frameworks and labour laws have been cited as significant hurdles. Another major challenge is the competition from cheaper imports, particularly from other Asian economies, which puts pressure on domestic manufacturing. Policy responses like the 'Make in India' initiative have been launched to address these very issues by aiming to improve the ease of doing business, attract investment, and develop India into a global manufacturing hub. The success of these policies is contingent on effectively tackling the deep-seated structural and infrastructural challenges.

Based on the above source, attempt the following five questions.

256. What was the primary characteristic of India's industrial policy in the initial post-independence phase?
(A) A focus on export promotion and private sector leadership.
(B) A strategy of import substitution dominated by the public sector and heavy industries.
(C) The dismantling of the public sector to encourage foreign investment.
(D) An emphasis on light manufacturing for consumer goods.

257. According to the passage, the post-1991 reforms led to which of the following changes in the industrial sector?
(A) An increase in the dominance of the public sector.
(B) The introduction of a comprehensive industrial licensing system.
(C) A renewed focus on import-substituting industrialization.
(D) A greater role for the private sector and increased diversification.

258. Which of the following is identified in the passage as a major challenge currently faced by India's industrial sector?
(A) Inadequate infrastructure and complex regulatory environments.
(B) A lack of private and foreign participation.
(C) The complete absence of policy responses from the government.
(D) An over-reliance on the agricultural sector for inputs.

259. The 'Make in India' initiative, as described in the passage, is a policy response aimed at:
(A) Nationalizing all key industrial sectors.
(B) Primarily promoting the growth of the agricultural sector.
(C) Improving the business environment and boosting domestic manufacturing.
(D) Restricting foreign trade and competition from imports.

260. The passage implies that the effectiveness of recent industrial policies depends on:
(A) Successfully addressing underlying infrastructural and structural problems.
(B) The performance of the global economy.
(C) The level of diversification in the agricultural sector.
(D) The rate of growth in the services sector.

Direction : Please read the following source carefully.

The services sector in India has emerged as the most dynamic component of the economy, exhibiting a remarkable pattern and structure of growth, particularly since the economic reforms of the 1990s. It is the largest contributor to the Gross Domestic Product and has been the primary driver of India's overall economic growth. The structure of this sector is heterogeneous, encompassing a wide range of activities from high-skill, high-wage segments like information technology, banking, and financial services to traditional, low-skill segments like petty trade and domestic services. While the modern sub-sectors have shown exceptional growth and

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fixed price.
(B) Providing a fixed subsidy on all agricultural inputs.
(C) Paying farmers the difference between the MSP and the market price if they sell below MSP.
(D) Waiving all outstanding loans of farmers.

218. The 'Make in India' initiative, launched in 2014, primarily aims to boost which sector of the economy?
(A) Manufacturing
(B) Agriculture
(C) Services
(D) Tourism

219. Which of the following is NOT a major challenge for the Indian services sector?
(A) A dualistic structure with a few high-productivity jobs and many low-productivity jobs.
(B) Need for regulatory reforms in many sub-sectors.
(C) Potential for job losses due to automation and AI.
(D) A complete lack of skilled manpower in the country.

220. Consider the following challenges concerning urban infrastructure in India:
1. Inadequate and inequitable access to safe drinking water.
2. Lack of comprehensive sewerage and sanitation networks.
3. Overburdened and inefficient public transport systems.
4. Poor solid waste management.
5. An abundance of affordable housing for all income groups.

Which of the statements given above are correct?
(A) 1, 2, 3 and 4 only
(B) 2, 3, 4 and 5 only
(C) 1, 3 and 5 only
(D) 1, 2, 3, 4 and 5

221. Which statement is incorrect regarding foreign capital flows?
(A) FDI is considered more stable than FPI.
(B) FPI involves purchasing financial assets like stocks and bonds.
(C) FDI is recorded as a debit item on the current account of BOP.
(D) Liberalisation of norms has been a key policy to attract foreign capital.

222. The 'viability gap funding' in a PPP project is a policy response to:
(A) Ensure the project is highly profitable for the private player.
(B) Fund the entire cost of the project by the government.
(C) Penalize the private partner for delays.
(D) Make a project that is economically justified but not financially viable attractive to private investors.

223. The central debate around labour market reforms in India revolves around finding a balance between:
(A) Providing flexibility to employers for business efficiency and ensuring job security and social protection for workers.
(B) Promoting automation and protecting manual jobs.
(C) The interests of public sector workers and private sector workers.
(D) Encouraging migration to cities and developing rural employment.

224. The 'Terms of Reference' (ToR) for a Finance Commission are set by the:
(A) Finance Commission itself.
(B) The Union Government.
(C) The Supreme Court of India.
(D) The Reserve Bank of India.

225. Match the concepts in List I with their associated measures or representations in List II:
List I: (Concept)
P. Income Inequality
Q. Absolute Poverty
R. Labour Force
S. Underemployment
List II: (Associated Measure/Representation)
1. Poverty Line
2. Gini Coefficient / Lorenz Curve
3. A skilled worker employed as a casual labourer
4. Employed + Unemployed persons seeking work

Codes:
(A) P-1, Q-2, R-3, S-4

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produce through platforms like e-NAM and fostering agricultural diversification to reduce risks and enhance farmer incomes. The goal is to transform agriculture from a subsistence activity into a commercially viable enterprise.

Based on the above source, attempt the following five questions.

266. What is a key reason for the continued importance of the agricultural sector in India, despite its declining GDP share?
(A) It is the fastest-growing sector of the economy.
(B) It provides livelihoods for a majority of the rural population.
(C) It has the highest productivity levels among all sectors.
(D) It is completely independent of monsoon patterns.

267. According to the passage, which of the following is a major challenge contributing to low agricultural productivity?
(A) An over-supply of efficient supply chains.
(B) Fragmented land holdings and dependence on monsoons.
(C) The implementation of a national agricultural market.
(D) Excessive government intervention through MSP.

268. The passage identifies inefficient supply chains and inadequate storage as part of which broader challenge?
(A) Issues related to post-harvest management.
(B) Low productivity in crop cultivation.
(C) Lack of access to formal agricultural credit.
(D) Problems with price discovery mechanisms.

269. What is the stated purpose of a policy response like e-NAM?
(A) To guarantee a minimum support price for all crops.
(B) To provide subsidized credit directly to farmers.
(C) To create a unified national market for agricultural goods.
(D) To encourage farmers to continue with subsistence farming.

270. The overarching goal of the policy responses mentioned in the passage is to:
(A) Increase the agricultural sector's share in the national GDP above 50%.
(B) Shift the entire rural population to urban industrial jobs.
(C) Phase out the Minimum Support Price mechanism entirely.
(D) Make agriculture a more commercially viable and profitable activity.

Direction : Please read the following source carefully.

India's development discourse is intrinsically linked to the parallel and often contrasting issues of rural and urban development. Rural development grapples with challenges of disguised unemployment in agriculture, lack of non-farm employment opportunities, inadequate social and physical infrastructure, and ensuring sustainable livelihoods. Policy responses in this domain, such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), are designed to provide a social safety net and create durable rural assets. Conversely, urban development is confronted with the pressures of rapid, often unplanned, urbanization. Key issues include the proliferation of slums, severe strain on public utilities like water and sanitation, traffic congestion, and environmental pollution. Policy responses for urban areas, exemplified by initiatives like the Smart Cities Mission and AMRUT (Atal Mission for Rejuvenation and Urban Transformation), focus on upgrading urban infrastructure, leveraging technology for better governance, and improving the quality of life in cities. While the challenges in rural and urban areas are distinct, they are interconnected; distress in the rural economy often fuels migration to cities, exacerbating urban problems. Therefore, a balanced and integrated policy approach is essential for sustainable national development.

Based on the above source, attempt the following five questions.

271. Which of the following is identified in the passage as a primary challenge for rural development?
(A) An excess of non-farm employment opportunities.
(B) The decreasing strain on public utilities.

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(C) Isolate the Indian economy from global influences.
(D) Focus exclusively on the development of the agricultural sector.

Direction : Please read the following source carefully.

The pattern of economic growth in India has exhibited a distinct and somewhat unconventional structure, particularly in the post-liberalization era. Unlike the traditional development trajectory followed by many East Asian economies, which saw a sequential shift from agriculture to industry and then to services, India's growth has been characterized by a notable leapfrogging from an agrarian-dominated economy to a service-led economy. While the industrial sector's growth has been significant, it has not expanded sufficiently to become the primary engine of employment or output, a phenomenon sometimes termed 'premature deindustrialization' or jobless growth. This structural pattern means the services sector contributes the largest share to the Gross Domestic Product (GDP), driven primarily by sub-sectors like information technology, financial services, and telecommunications. However, the agricultural sector, despite its declining share in GDP, continues to employ a large proportion of the workforce. This mismatch between the sectoral contribution to GDP and sectoral employment poses a fundamental challenge for inclusive and sustainable development, influencing patterns of income distribution, rural-urban migration, and the overall stability of the growth process. The structure of growth is therefore a critical determinant of its quality and distributional outcomes.

Based on the above source, attempt the following five questions.

251. According to the passage, what is the most distinctive feature of India's economic growth pattern?
(A) A sequential and balanced shift from agriculture to industry, then to services.
(B) A direct transition from an agrarian base to a service-dominated economy.
(C) A rapid expansion of the industrial sector as the primary engine of employment.
(D) A sustained high rate of growth in the agricultural sector's share of GDP.

252. The passage suggests a significant mismatch in the Indian economy between which two aspects?
(A) The sectoral contribution to GDP and the proportion of the workforce employed.
(B) The growth of exports and the growth of imports.
(C) The rate of technological adoption in services and industry.
(D) The level of public investment and private investment in infrastructure.

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253. What challenge does the described pattern and structure of growth pose for India?
(A) An over-reliance on foreign capital for the industrial sector.
(B) The inability of the services sector to contribute significantly to GDP.
(C) Difficulty in ensuring inclusive development due to employment-output disparities.
(D) A decline in the quality of services offered by the telecommunications sector.

254. The term 'jobless growth', as inferred from the passage, would most closely relate to which phenomenon?
(A) The agricultural sector employing more people than the services sector.
(B) The services sector experiencing a decline in its GDP contribution.
(C) An overall decrease in the national unemployment rate.
(D) The industrial sector's growth not creating a proportionate number of jobs.

255. Based on the analysis in the passage, which statement accurately reflects the structure of the Indian economy?
(A) The agricultural sector is the largest contributor to both GDP and employment.
(B) The industrial sector leads in both GDP contribution and workforce absorption.
(C) The services sector has the highest share in GDP, while agriculture employs a large part of the workforce.
(D) The services and industrial sectors have an equal share in GDP and employment.

Direction : Please read the following source carefully.

The Indian industrial sector, since independence,

(C) Primarily towards commodity-exporting countries in Africa.
(D) A greater focus on countries within Asia and the developing world.

278. According to the passage, how is India's deficit on the trade account often managed within the Balance of Payments?
(A) By drastically reducing all forms of imports to zero.
(B) Through surpluses generated from software exports and remittances on the invisibles account.
(C) By maintaining a surplus in the trade of goods.
(D) By restricting the outflow of foreign portfolio investment.

279. The passage identifies the flow of foreign capital as comprising which two main components?
(A) Trade deficits and trade surpluses.
(B) Service exports and commodity imports.
(C) Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).
(D) Government borrowing and private remittances.

280. How has India's trade policy evolved over time, as described in the passage?
(A) From a liberalized regime to a more restrictive, inward-looking stance.
(B) From an open stance to one that discourages the flow of foreign capital.
(C) It has remained consistently restrictive and protectionist.
(D) It has moved from a restrictive stance to a more open and liberalized one.

Direction : Please read the following source carefully.

Infrastructure development is a cornerstone of economic progress, and in the Indian context, it is conceptualized across two critical dimensions: physical and social. Physical infrastructure encompasses the tangible networks essential for economic activity, such as transport (roads, railways, ports), energy (power generation and transmission), and communication systems. Deficiencies in physical infrastructure create logistical bottlenecks, increase business costs, and hinder competitiveness. Social infrastructure, on the other hand, refers to the facilities that enhance human capital and quality of life, primarily education and healthcare systems. The development of social infrastructure is crucial for building a skilled and healthy workforce, which is a prerequisite for sustained long-term growth. Given the enormous financial requirements for bridging the infrastructure deficit in both areas, the government has increasingly adopted Public-Private Partnerships (PPPs) as a key policy instrument. The PPP model aims to leverage the financial resources, operational efficiency, and innovation of the private sector to develop public assets and deliver services. This collaborative approach seeks to supplement public funding and expedite the creation of robust physical and social infrastructure, thereby accelerating overall economic development.

Based on the above source, attempt the following five questions.

281. According to the passage, which of the following best represents an example of 'physical infrastructure'?
(A) A national highway system.
(B) A network of primary schools.
(C) A chain of public hospitals.
(D) A skill development program.

282. What is the primary role of 'social infrastructure' as described in the text?
(A) To directly generate revenue for the government.
(B) To enhance human capital by developing a skilled and healthy workforce.
(C) To increase the operational costs for private businesses.
(D) To create logistical networks for the transport of goods.

283. The passage suggests that a deficiency in physical infrastructure leads to what consequence?
(A) An increase in the health and education levels of the population.
(B) Higher costs for businesses and reduced economic competitiveness.
(C) A decrease in the need for social infrastructure.
(D) A reduction in logistical bottlenecks and business costs.

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jobs for the broader semi-skilled population, the overall employment growth rate remained much lower than the rapid pace of GDP expansion.

39. (D) The creation of a national electronic market (e-NAM) to integrate mandis.

To modernize agricultural marketing, the government introduced the e-NAM platform, an innovative electronic trading portal. This initiative integrates existing physical mandis into a unified national market, facilitating transparent price discovery and reducing the power of local intermediaries. By allowing farmers to sell their produce to buyers across the country through an online auction system, it aims to improve their bargaining power and ensure they receive a fair price.

40. (C) 1, 2 and 3 only

India's industrial sector faces several structural hurdles that impede expansion and global competitiveness. Inadequate infrastructure, particularly regarding stable power and efficient logistics, significantly increases operational costs. Rigid labour laws and complex land acquisition processes further deter investment and slow down new projects. While domestic demand for industrial goods remains strong, these supply-side constraints prevent the sector from reaching its full potential as a major driver of national growth.

41. (C) Knowledge-based services sector

A sunrise sector refers to an industry that is in its infancy but shows high growth rates and significant future potential. In the Indian economy, the knowledge-based services sector, including information technology, biotechnology, and high-end research, fits this description. These industries are characterized by high innovation, rapid expansion, and the ability to attract substantial investment, making them vital for the transition toward a more modern and technologically advanced economic structure.

42. (A) There is a complete absence of social stratification in rural India.

Rural development in India is a complex process hindered by numerous socio-economic obstacles. Rural areas often face a severe lack of non-farm jobs and limited access to quality healthcare and education. These factors contribute to distress migration toward urban centers. However, claiming an absence of social stratification is incorrect; rural society is deeply influenced by complex caste and class structures that determine access to resources and opportunities for development.

43. (D) The process of renovating deteriorated urban neighborhoods, which often displaces lower-income residents.

Gentrification is a process of urban neighborhood change where higher-income residents and businesses move into previously deteriorated areas. This often involves significant renovation and redevelopment of housing and infrastructure, which improves the physical environment. However, the resulting increase in property values and rents frequently displaces the original lower-income residents who can no longer afford to live there. This transformation alters the social character and economic demographic of rejuvenated districts.

44. (A) Both Statement I and Statement II are correct.

Foreign Direct Investment involves a long-term commitment where a foreign entity acquires a lasting interest and management control in a domestic enterprise. In contrast, Foreign Portfolio Investment involves purchasing financial assets like stocks and bonds for shorter durations. While FDI provides stability and technology transfer, FPI is generally more volatile as it can be quickly withdrawn. Both forms are crucial for injecting capital into the economy and fostering sustainable growth.

45. (B) 2, 3 and 4 only

Physical infrastructure consists of the tangible assets and systems that facilitate economic production and commerce. This includes national highways for transport, power grids for energy distribution, and telecommunication networks for communication. These components are essential for reducing business costs and improving connectivity. In contrast, health centers and education systems are classified as social infrastructure because they focus on human development and improving the quality and productivity of the national labor force.

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(A) A holistic and coordinated approach to reforms is essential for success.
(B) Reforms in one market can be successfully implemented in isolation.
(C) Labour market reforms are the only ones that truly matter.
(D) Capital market reforms should always precede land and labour reforms.

Direction : Please read the following source carefully.

The framework of fiscal federalism in India is governed by the intricate dynamics of Centre-State financial relations. A cornerstone of this framework is the role of the Finance Commissions, which are constitutionally mandated bodies appointed periodically to recommend the distribution of financial resources. Their primary task involves making recommendations on the vertical devolution, which is the share of the Union's net tax proceeds to be transferred to the States, and the horizontal devolution, which is the allocation of this share among the States based on a formula of equity and efficiency. To ensure macroeconomic stability and long-term fiscal sustainability, the Fiscal Responsibility and Budget Management (FRBM) Act was enacted. This legislation serves as an institutional mechanism to enforce fiscal discipline on the government. The FRBM Act mandates specific targets for the reduction of fiscal and revenue deficits for both the Centre and, through similar state-level acts, the States. The objective is to contain government debt, thereby ensuring that fiscal policy remains prudent and does not jeopardize the country's financial health. The interplay between the recommendations of the Finance Commissions and the constraints imposed by the FRBM framework significantly shapes the fiscal space available to both the central and state governments.

Based on the above source, attempt the following five questions.

291. What is the primary function of the Finance Commissions in India?
(A) To directly implement fiscal policy at the state level.
(B) To set the monetary policy and interest rates for the country.
(C) To recommend the distribution of financial resources between the Centre and States.
(D) To audit the accounts of private corporations.

292. 'Vertical devolution', as described in the passage, refers to:
(A) The share of the Centre's tax revenue that is transferred to the States.
(B) The distribution of funds among the various central government ministries.
(C) The allocation of funds among different states based on a formula.
(D) The process of states transferring their surplus revenue to the Centre.

293. What is the principal objective of the Fiscal Responsibility and Budget Management (FRBM) Act?
(A) To increase the fiscal and revenue deficits without any limits.
(B) To maximize government spending regardless of debt levels.
(C) To give the Finance Commission the power to set tax rates.
(D) To enforce fiscal discipline by setting targets for deficit reduction.

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294. 'Horizontal devolution' involves which of the following processes?
(A) Determining the share of taxes to be kept by the Centre.
(B) Allocating the states' collective share of tax revenue among individual states.
(C) Transferring funds from states back to the central government.
(D) Setting deficit targets for the central government alone.

295. The passage suggests that the FRBM framework impacts Centre-State financial relations by:
(A) Eliminating the need for Finance Commissions.
(B) Granting unlimited fiscal autonomy to all states.
(C) Placing constraints on the borrowing and spending of both Centre and States.
(D) Mandating that all central taxes be collected by the states.

Direction : Please read the following source carefully.

Despite achieving high rates of economic growth, the Indian economy continues to grapple with the

intertwined and persistent challenges of poverty, inequality, and unemployment. Poverty, while having declined over the decades, remains a significant issue, with a large number of people still living below the poverty line. Inequality, both in terms of income and wealth, has been on the rise. This growing gap between the rich and the poor raises concerns about the inclusiveness of the growth process, suggesting that the benefits of economic expansion are not being equitably distributed. The challenge of unemployment is multifaceted, encompassing not only open unemployment but also significant underemployment and disguised unemployment, particularly in the rural and informal sectors. Structural unemployment, where there is a mismatch between the skills of the workforce and the jobs available, is a particularly pressing concern in a rapidly changing economy. These three issues are deeply interconnected; high inequality can perpetuate poverty by limiting opportunities for the disadvantaged, while a lack of quality employment is a primary driver of both poverty and inequality. Addressing this triad of challenges is a central objective of India's development policy, requiring targeted interventions beyond just focusing on aggregate GDP growth.

Based on the above source, attempt the following five questions.

296. What is the central paradox highlighted in the passage regarding the Indian economy?
(A) The simultaneous decline in both poverty and inequality.
(B) The complete eradication of unemployment alongside slow GDP growth.
(C) The increase in poverty despite a fall in economic growth.
(D) The coexistence of high economic growth with persistent poverty and rising inequality.

297. According to the passage, the rise in income and wealth inequality suggests that:
(A) The growth process may not be inclusive.
(B) The benefits of economic growth are being distributed equitably.
(C) Poverty is no longer a significant issue in India.
(D) Economic expansion has benefited all sections of society equally.

298. The passage describes unemployment in India as being multifaceted. Which of the following is mentioned as a specific form of this challenge?
(A) A complete absence of open unemployment.
(B) Disguised unemployment, particularly in the rural sector.
(C) An over-supply of jobs for all skill levels.
(D) A perfect match between worker skills and available jobs.

299. What is the nature of the relationship between poverty, inequality, and unemployment as described in the text?
(A) They are completely independent issues with no connection to each other.
(B) They are deeply interconnected, with each issue influencing the others.
(C) A rise in unemployment leads to a decrease in both poverty and inequality.
(D) An increase in inequality helps in the reduction of poverty.

300. The passage concludes that tackling the triad of poverty, inequality, and unemployment requires:
(A) Targeted interventions that go beyond just growth-centric policies.
(B) A sole focus on achieving higher aggregate GDP growth.
(C) Policies that ignore the distribution of economic benefits.
(D) Reducing the focus on employment generation.

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ANSWERS

1. (B) Changes in sectoral GDP, employment, and investment patterns.
   The pattern of economic growth in India involves more than just a numerical increase in national income. It encompasses structural shifts within the economy, primarily referring to how the relative shares of agriculture, industry, and services change over time. This includes tracking the distribution of the Gross Domestic Product across these sectors, alongside accompanying movements in employment and the specific allocation of investment across various economic activities.

2. (C) Statement I is correct, but Statement II is incorrect.
   India has experienced a significant structural transformation where the services sector now contributes the majority of the national output, replacing agriculture as the primary economic driver. However, this shift in production has not been matched by a proportional movement of the workforce. A large portion of the population remains dependent on agriculture for their livelihoods, indicating a notable lag between sectoral output changes and labor redistribution.

3. (C) Fragmentation of landholdings hindering economies of scale.
   Fragmentation of landholdings represents a critical structural challenge in the agricultural sector, where farms are divided into small, scattered plots over generations. This process makes it difficult for farmers to adopt modern machinery or implement large-scale irrigation systems efficiently. Consequently, the lack of economies of scale increases the cost per unit of output, reduces overall productivity, and makes small-scale farming increasingly unviable in a competitive market.

4. (D) The period between 1951 and 1990.
   The period between 1951 and 1990 in India was characterized by an extensive system of government licenses and regulations, commonly known as the License Raj. This regime required businesses to obtain official permission for various activities, including starting new ventures, expanding capacity, or changing product lines. The primary goal was to ensure state-led development according to planned priorities, though it often resulted in bureaucratic delays and inefficiencies.

5. (A) P-3, Q-2, R-1, S-4
   The service sector is categorized into various sub-groups based on the nature of activities. Wholesale and retail trades fall under trade, hotels, and restaurants. Financing and insurance include professional business services like software development and BPO. Community services encompass public administration and defense, while transport services include essential infrastructure like railways and postal communications. These classifications help in analyzing specific growth drivers and employment potential within the national economy.

6. (B) Promotion of large-scale industrial enterprises.
   Rural development programs in India are designed to improve the socio-economic status of people living in villages. The primary objectives focus on alleviating poverty through income-generating activities and developing essential infrastructure such as roads and electricity. Enhancing social services like health and education is also a priority. However, the promotion of large-scale industrial enterprises is typically an urban-centric industrial policy rather than a primary rural development objective.

7. (D) Redeveloping existing urban areas through technological means.
   The Smart Cities Mission is an urban renewal program aimed at making cities more citizen-friendly and sustainable. It primarily focuses on redeveloping existing urban areas by integrating technological solutions into core infrastructure and services. By using digital tools for water management, energy efficiency, and waste disposal, the mission seeks to improve the

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The Fiscal Responsibility and Budget Management Act was enacted to institutionalize financial discipline and ensure the long-term sustainability of public finances. By setting clear targets for reducing fiscal and revenue deficits, the act aims to limit government borrowing and control inflation. This framework promotes macroeconomic stability, prevents excessive debt accumulation, and ensures that future generations are not burdened by current fiscal mismanagement through more prudent spending.

24. (A) Gini Coefficient
The Gini Coefficient is a statistical measure used to represent the income or wealth distribution of a nation's residents. It ranges from zero to one, where zero represents perfect equality and one indicates perfect inequality. Often derived from the Lorenz Curve, this metric provides a concise way for economists to analyze the gap between different income groups and monitor changes in economic disparity over time.

25. (B) P-3, Q-2, R-1, S-4
Different types of unemployment reflect various economic conditions. Frictional unemployment occurs during brief transitions between jobs, while structural unemployment stems from a mismatch between worker skills and industrial needs. Cyclical unemployment is linked to business downturns or recessions. Disguised unemployment is a specific situation where surplus labor exists without contributing to additional output, often seen in overcrowded sectors where individual marginal productivity falls to zero.

26. (A) The absolute value of the fiscal deficit.
Indicators of economic structure analyze how different sectors contribute to output, employment, and trade. The share of agriculture in GDP and the ratio of manufacturing workers to the total workforce provide insights into structural shifts. Similarly, the export-to-GDP ratio measures global integration. However, the absolute value of the fiscal deficit is a fiscal policy indicator focused on government budgeting rather than the sectoral structure.

27. (D) Increased regional and interpersonal inequalities.
The Green Revolution successfully boosted food security by introducing high-yielding variety seeds and modern irrigation. However, its benefits were concentrated in specific regions and favored larger farmers who could afford expensive inputs. This uneven distribution exacerbated regional disparities and interpersonal income inequalities. While production increased significantly, the socio-economic gap between different agricultural zones and social classes widened as a result of the selective adoption of technology.

28. (B) The sale of public sector equity to the private sector or the public.
Disinvestment in the industrial sector involves the government selling its equity or ownership stakes in public sector enterprises to private investors or the general public. This policy aims to reduce the fiscal burden on the state, improve the operational efficiency of these companies through private participation, and raise funds for social welfare programs. It marks a shift from state-dominated production toward a more market-oriented economy.

29. (C) It has been a major contributor to India's export earnings, especially IT services.
The services sector has been the most dynamic component of the Indian economy, significantly contributing to national output and foreign exchange earnings. Its growth is largely driven by information technology and business process management industries, which have made India a global hub for high-end services. However, this sector is highly heterogeneous and, despite its large share of GDP, does not yet employ the majority of the workforce.

30. (A) 1, 2, 3, 4
Rural development initiatives have been launched sequentially to address infrastructure, employment, and livelihoods. The Pradhan Mantri Gram Sadak Yojana for road connectivity started in 2000. The employment guarantee act followed in 2005. Later, the National Rural Livelihood Mission was introduced in 2011 to organize the poor into self-help groups. Finally, the specialized skill development program, DDU-GKY, was launched in 2014 to improve rural youth employability.

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extreme price drops, while the e-NAM platform integrates markets for better price discovery. Micro-irrigation initiatives focus on efficient water usage in rain-deficient areas. However, the Pradhan Mantri Kisan Samman Nidhi is a direct income support scheme rather than a crop insurance program, which is covered under different agricultural initiatives.

16. (B) Heavy and capital goods industries.
The Mahalanobis Model, central to the Second Five-Year Plan, prioritized the establishment of heavy and capital goods industries as the foundation for industrialization. The strategy aimed to reduce dependence on imports by producing machinery and equipment domestically. By focusing on core sectors like steel, power, and chemicals, the government hoped to create a strong industrial base that would support long-term economic growth and achieve national self-sufficiency.

17. (B) Leapfrogging
Leapfrogging describes a unique economic growth trajectory where a country moves directly from an agriculture-dominated economy to a services-oriented one. In India, the rapid expansion of information technology and business services occurred without the country first undergoing a robust manufacturing-led industrialization phase. This bypasses the traditional developmental sequence followed by many advanced nations, resulting in a services sector that contributes disproportionately to the total national output.

18. (A) Employment is provided only in skilled technical jobs.
The Mahatma Gandhi National Rural Employment Guarantee Act is a demand-driven social security scheme providing at least one hundred days of guaranteed wage employment. It primarily offers unskilled manual work to rural households to enhance their livelihood security and create durable community assets. Since the focus is on providing a basic safety net for the poor, the employment offered is not restricted to skilled or technical jobs.

19. (C) The uncontrolled spread of urban areas into the countryside.
Urban sprawl refers to the rapid and unplanned expansion of city boundaries into the surrounding rural areas or countryside. This phenomenon often involves low-density development that relies heavily on private vehicle transportation, leading to increased traffic congestion and environmental degradation. As cities grow horizontally without proper oversight, they consume valuable agricultural land and place significant strain on existing public infrastructure like water, sanitation, and power.

20. (A) 1, 2, 3 and 4 only
The Balance of Payments records all financial transactions between a country and the rest of the world. It includes the current account, tracking trade in goods and services, and the capital account, monitoring investments like FDI. Software exports are credited to the current account as service income. While a surplus indicates healthy inflows, it actually increases foreign exchange reserves rather than decreasing them as suggested by the incorrect statement.

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21. (C) Education, health, sanitation, and housing facilities.
Social infrastructure refers to the foundational systems and services that support a country's human development and social well-being. This includes facilities for education, public health, sanitation, and affordable housing. Unlike physical infrastructure, which focuses on industrial productivity through roads or power, social infrastructure aims to enhance the quality of life, improve human capital, and ensure that the population is healthy and skilled for growth.

22. (A) Both Statement I and Statement II are correct.
Recent labour market reforms in India focus on streamlining the complex legal environment to facilitate better business operations while protecting workers' interests. By amalgamating dozens of central laws into four simplified codes, the government aims to reduce the compliance burden for employers. These changes are intended to provide greater flexibility for industrial establishments while simultaneously expanding social security benefits and ensuring basic safety and wage standards.

23. (D) Fiscal discipline and macroeconomic stability.

284. What is the main reason cited for the adoption of Public-Private Partnerships (PPPs) in infrastructure development?
(A) To leverage private sector resources and efficiency to meet large financial requirements.
(B) To reduce the role of the private sector in the economy.
(C) To exclusively focus on developing social infrastructure.
(D) To replace public funding entirely with foreign aid.

285. The over arching goal of developing both physical and social infrastructure, as implied by the passage, is to:
(A) Create a permanent deficit in the government budget.
(B) Discourage private sector participation in the economy.
(C) Facilitate and accelerate overall economic development.
(D) Prioritize the development of one sector over all others.

Direction : Please read the following source carefully.

The drive to enhance economic efficiency and accelerate growth in India has led to a focus on reforms in the critical factor markets: land, labour, and capital. These reforms are considered essential for improving the ease of doing business and attracting investment. Reforms in the land market aim to address complex issues such as clear titling, a transparent process for land acquisition for industrial and infrastructure projects, and the creation of a digitized land record system. In the labour market, reforms are centered on the debate between providing greater flexibility to employers in hiring and firing decisions and ensuring adequate social security and rights for workers. The goal is to move from a system of complex and overlapping laws to a more streamlined labour code. Capital market reforms have sought to deepen the financial system, enhance investor protection, improve corporate governance standards, and provide a wider range of financial instruments. These reforms are intended to improve the allocation of capital to its most productive uses. The interconnected ness of these markets means that progress in one area is often contingent on reforms in the others, making a holistic approach crucial for unlocking India's full economic potential.

Based on the above source, attempt the following five questions.

286. According to the passage, what is the primary objective of undertaking reforms in the land, labour, and capital markets?
(A) To increase the complexity of doing business.
(B) To reduce the role of the private sector in the economy.
(C) To focus exclusively on agricultural development.
(D) To enhance economic efficiency and attract investment.

287. Which of the following is identified as a key area for reform in the land market?
(A) Introducing more complex and overlapping laws.
(B) Promoting ambiguity in the process of land acquisition.
(C) Establishing clear titling and digitized land records.
(D) Discouraging investment in infrastructure projects.

288. The debate surrounding labour market reforms, as described in the passage, revolves around balancing:
(A) Rural employment with urban employment.
(B) Employer flexibility with worker social security.
(C) Public sector jobs with private sector jobs.
(D) Agricultural labour with industrial labour.

289. What is a stated goal of capital market reforms mentioned in the passage?
(A) To restrict the range of available financial instruments.
(B) To decrease investor protection and weaken corporate governance.
(C) To limit the depth of the financial system.
(D) To improve the allocation of capital to its most productive uses.

290. The passage emphasizes the 'interconnected ness' of factor market reforms, implying that:

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31. (A) Encouraging reforms and fast-tracking planned development of identified cities.
The Jawaharlal Nehru National Urban Renewal Mission was a massive city-modernization scheme launched to improve urban infrastructure and governance. It incentivized state governments and urban local bodies to implement essential reforms, such as property tax changes and better land management. By fast-tracking planned development in identified cities, the program aimed to enhance the efficiency of urban services and ensure sustainable growth in rapidly expanding metropolitan areas.

32. (A) Both Statement I and Statement II are correct.
The direction of foreign trade refers to the specific countries and regions with which a nation conducts its business. Historically, India's trade was concentrated with a few colonial or developed partners. However, post-liberalization policies have led to significant diversification. India now maintains strong trading relationships with a wider variety of nations, including emerging economies in Asia, Africa, and Latin America, reducing its dependence on any single market.

33. (B) A model where a private entity builds for a term and then transfers it to the state.
The Build-Operate-Transfer model is a common framework for public-private partnerships in infrastructure development. Under this arrangement, a private entity receives a concession to design, finance, and build a specific project. The private partner then operates and maintains the facility for a specific duration to recover its investment through tolls or fees. After the agreed term expires, ownership and operation of the asset are transferred to the state.

34. (A) Land Reforms: Introduction of License Raj
Land reforms in India were intended to restructure agrarian relations by abolishing the Zamindari system and implementing land ceilings to redistribute wealth. In contrast, the License Raj was an industrial policy characterized by heavy regulation and government control, which is the opposite of land-based market reforms. Capital market reforms focused on establishing SEBI for transparency, while labour reforms targeted the simplification of complex codes to improve flexibility.

35. (C) A is true but R is false.
Finance Commissions are periodically established to resolve financial imbalances between the center and states. While the constitution divides financial resources, it does not eliminate imbalances. In fact, the center typically collects more revenue than its spending responsibilities require, whereas states often face higher expenditures than their revenue sources can cover. This necessitates a mechanism for the equitable distribution of funds to ensure balanced federal growth.

36. (D) The mean shortfall of the total population from the poverty line.
The Poverty Gap Index is a refined measure that goes beyond simply counting the number of poor people. It calculates the average shortfall of the entire population from the poverty line, with the non-poor having zero shortfall. By expressing this gap as a percentage of the poverty line, it helps policymakers understand the depth of poverty and the amount of resources required to lift everyone out of it.

37. (C) Structural unemployment
Structural unemployment arises when there is a fundamental mismatch between the skills workers possess and the requirements of available jobs. This often occurs due to rapid technological advancements or shifts in consumer demand that make traditional industrial skills obsolete. Unlike temporary frictional unemployment, structural issues require long-term solutions such as vocational training and education reforms to realign the labor force with the evolving needs of the modern economy.

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38. (B) Because employment growth rate was lower than the GDP growth rate.
Jobless growth describes an economic phenomenon where a nation's Gross Domestic Product increases significantly without a corresponding rise in employment opportunities. In India's post-2000 period, growth was largely driven by capital-intensive and high-skill sectors like information technology and finance. Because these sectors did not generate enough

quality of life for residents while ensuring a cleaner and more efficient urban environment for everyone.

8. (A) A shift towards an open, export-oriented trade regime.
The 1991 trade reforms marked a fundamental shift from an inward-looking, protectionist stance to an open, export-oriented regime. These policy changes involved reducing import tariffs, removing quantitative restrictions, and devaluing the currency to enhance global competitiveness. The primary objective was to integrate the Indian economy with world markets, encourage technological upgrades, and improve the overall efficiency of the domestic industrial sector through increased participation in international trade.

9. (C) The private sector partner typically bears all the risks associated with the project.
Public-Private Partnerships involve long-term collaborations between government agencies and private sector entities to deliver public infrastructure or services. While these partnerships leverage private capital and technical expertise, risk-sharing is a fundamental principle. The private partner does not bear all the risks; instead, risks are allocated to the party best equipped to manage them, with the government often retaining significant responsibilities throughout the entire project lifecycle.

10. (A) Both A and R are true and R is the correct explanation of A.
Establishing the Securities and Exchange Board of India as a statutory regulator was essential to bring order to the financial markets. Before these reforms, the capital market lacked transparency and was plagued by unfair trading practices that harmed small investors. By providing a robust legal framework and oversight, SEBI restored investor confidence and ensured that market participants adhered to ethical standards, facilitating healthier and more transparent financial growth.

11. (D) To recommend the distribution of net tax proceeds between the Centre and the States.
The Finance Commission of India is a constitutional body established to manage fiscal relations between different levels of government. Its primary mandate involves recommending the formula for distributing the net proceeds of taxes between the central government and various states. Additionally, it provides principles for grants-in-aid to states from the consolidated fund, ensuring equitable resource allocation and addressing fiscal imbalances within the complex Indian federal system.

12. (B) The percentage of the population living below the poverty line.
The Headcount Ratio is a standard measure used to quantify the prevalence of poverty within a specific population. It calculates the proportion of individuals whose income or consumption expenditure falls below a predefined poverty line relative to the total population. While it provides a clear percentage of people living in poverty, it does not account for the intensity or depth of the deprivation those individuals actually face.

13. (C) Statement I is correct, but Statement II is incorrect.
Disguised unemployment occurs when an activity employs more workers than necessary for optimal production, resulting in zero marginal productivity for the surplus labor. This phenomenon is predominantly found in the agricultural sector, where entire families often work on small plots of land that require fewer people. It is not a feature of the organized industrial sector, where labor requirements are usually strictly aligned with actual productivity and demand.

14. (D) 1950-1980: Hindu Rate of Growth
The period from 1950 to 1980 in India is often characterized by a relatively slow growth rate of approximately three point five percent. Professor Raj Krishna coined the term Hindu Rate of Growth to describe this stagnation, which was attributed to protective trade policies, extensive government regulation, and a focus on self-reliance. This phase preceded the more dynamic growth periods triggered by later liberalization and market reforms.

15. (A) 1, 2 and 4 only
Government interventions in agriculture aim to address various systemic challenges. The Minimum Support Price protects farmers from

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46. (D) Redistribute surplus land among the landless.
Land ceiling policies were a central part of post-independence land reforms aimed at achieving social justice. By setting a legal limit on the maximum amount of land an individual or family could own, the government identified surplus land. The primary objective of this intervention was to redistribute excess land among landless laborers and small farmers. This was intended to reduce rural inequality, empower the marginalized, and create a more equitable agrarian structure.

47. (A) N. K. Singh: Chairman of the 15th Finance Commission
The Finance Commission is a constitutional body established under Article 280 to recommend the distribution of financial resources. N. K. Singh served as the Chairman of the 15th Finance Commission, which provided the framework for tax devolution for the current period. While the commission is a periodic body appointed every five years, it plays a permanent role in India's fiscal federalism by ensuring that states receive an equitable share of national revenue.

48. (B) Targeting only annual deficit numbers like fiscal and revenue deficits.
The recommendation to use the debt-to-GDP ratio as the primary fiscal anchor marked a significant shift in India's fiscal management strategy. Previously, the government focused almost exclusively on annual deficit numbers, such as the fiscal and revenue deficits. By prioritizing the total debt level relative to the economy's size, policymakers aim to ensure long-term solvency and sustainable borrowing. This holistic approach provides a better measure of the government's overall financial health and stability.

49. (B) A progressive taxation system.
Income inequality in India stems from structural factors like unequal distribution of assets, unequal access to quality education, and the dominance of the informal sector. However, a progressive taxation system is actually a policy tool designed to reduce inequality. By taxing higher income earners at a greater rate and using the revenue for social welfare, the government attempts to redistribute wealth and narrow the gap between different economic classes and social groups.

50. (C) P-3, Q-1, R-4, S-2
Various committees have refined India's poverty estimation methodology over time. The Alagh Committee established poverty lines based on nutritional requirements. The Lakdawala Committee introduced state-specific price indexes for rural and urban areas. Later, the Tendulkar Committee shifted the focus toward a broader consumption basket including health and education. Finally, the Rangarajan Committee provided a revised methodology in 2014 that incorporated higher expenditure thresholds, resulting in an increased count of the poor population.

51. (C) A premature shift to the services sector, bypassing a mature industrialization phase.
India's economic growth is characterized by a unique structural pattern often described as premature transformation. Instead of following the traditional path from agriculture to manufacturing and then to services, the economy shifted directly toward services. This transition occurred while the manufacturing sector remained relatively small and most of the workforce stayed in agriculture. Consequently, the services sector now contributes a dominant share to output despite the absence of a mature industrialization phase.

52. (D) Milk production
Operation Flood was a landmark initiative that transformed India into the world's largest milk producer, often referred to as the White Revolution. Launched by the National Dairy Development Board, the program focused on creating a nationwide milk grid and empowering rural dairy farmers through cooperatives. By improving production techniques, cold storage, and distribution networks, it significantly increased rural incomes and ensured a steady supply of dairy products to urban consumers across the country.

53. (A) Both Statement I and Statement II are correct.
The Make in India initiative was launched to transform the country into a global design and manufacturing hub. Its primary goals include encouraging both domestic and foreign

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109. (C) Micro, Small, and Medium Enterprises
In the context of the Indian industrial landscape, the acronym MSME stands for Micro, Small, and Medium Enterprises. These businesses are classified based on their levels of investment in plant and machinery and their annual turnover. The MSME sector is a vital component of the economy, as it contributes significantly to employment generation, industrial output, and national exports. Because of their presence in rural and urban areas alike, these enterprises are crucial for fostering inclusive growth.

110. (A) Both A and R are true and R is the correct explanation of A.
The rapid growth of the services sector in India is frequently described as jobless growth. This is because the most dynamic segments, such as information technology and financial services, are both capital-intensive and highly skill-intensive. While these industries generate substantial income, they do not create a large number of jobs for the broader semi-skilled labor force. Consequently, the sector's contribution to national output has grown much faster than its ability to effectively absorb surplus agricultural workers.

111. (A) Organizing the rural poor into Self Help Groups (SHGs) and enabling them for livelihoods.
The Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission is a flagship program designed to reduce rural poverty by empowering the poor. Its primary strategy involves organizing rural households into Self-Help Groups and federating them at various levels. By providing these groups with training, financial resources, and access to credit, the mission enables poor families to pursue diverse livelihood opportunities. This participatory approach aims to foster self-reliance and improve socio-economic status through collective action and sustainable income-generating activities.

112. (B) Promoting cities that provide core infrastructure, a decent quality of life, and a clean and sustainable environment through 'smart' solutions.
The Smart Cities Mission was launched to improve urban living through the application of smart solutions to existing city infrastructure. The primary goal is to promote cities that provide a high quality of life, a clean environment, and sustainable core infrastructure. Rather than building entirely new cities from scratch, the mission focuses on redeveloping and retrofitting existing urban areas. This technological approach aims to make cities more efficient, citizen-friendly, and resilient to the challenges of rapid population growth.

113. (A) Both Statement I and Statement II are correct.
The structure of India's foreign trade refers to the commodity composition, or the specific types of goods and services, that the country exports and imports. Over several decades, this structure has undergone a significant transformation. Historically, India primarily exported raw materials and primary agricultural products. However, modern exports are dominated by manufactured goods, refined petroleum, and high-value services like information technology. This shift reflects industrial diversification and growing participation in global value chains as a modernized economy.

114. (A) Telecommunication towers
Social infrastructure consists of facilities that directly support human development and social well-being, such as education systems, healthcare facilities, and sanitation services. In contrast, telecommunication towers are classified as physical infrastructure. Like roads and power grids, they represent the tangible systems necessary for industrial production, commerce, and general communication. While they facilitate social interaction, their primary role is to provide the technical connectivity required for a modern economy to function effectively in a digital age.

115. (C) 1, 2 and 3 only
Post-independence land reforms were designed to achieve social justice by restructuring agrarian relations. Key steps included the abolition of the Zamindari system and tenancy reforms to provide security for cultivators. While these policies were theoretically sound, they were not implemented with uniform success across all regions. Political resistance and legal loopholes often slowed progress in several states. Therefore, while the objectives and initial steps were significant, actual results and speed

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recurring expenditures exceed its recurring receipts, forcing it to borrow money to fund daily operations or consumption. Borrowing for consumption rather than for asset creation is considered economically unhealthy as it does not generate future income to repay the debt. Thus, eliminating this deficit is vital for sound management.

61. (C) Cyclical unemployment

Cyclical unemployment is directly linked to fluctuations of the business cycle, occurring when there is an overall downturn in economic activity. During a recession, demand for goods and services falls, leading companies to reduce production and lay off workers to cut costs. A factory worker losing their job because of such a general economic slowdown is a classic example. This type of unemployment typically persists until the economy recovers and business demand returns.

62. (D) They moved the economy to a higher growth trajectory, particularly driven by the service and industrial sectors.

The 1991 economic reforms fundamentally transformed India's growth pattern by dismantling the License Raj and integrating the nation into the global market. These policy changes shifted the economy onto a significantly higher growth trajectory, moving away from the slow pace of previous decades. Liberalization efforts specifically boosted the service and industrial sectors, which became the primary engines of development. This resulted in increased foreign investment, technological modernization, and a more competitive domestic environment.

63. (A) Promoting the nationalization of all agricultural land.

Policy responses to agricultural challenges focus on improving farmer welfare through subsidized inputs, expanded institutional credit, and investments in research. These measures aim to boost productivity and ensure financial stability. However, promoting the nationalization of all agricultural land is not part of India's policy framework. Instead, the focus has been on land reforms that protect tenancy rights and redistribute surplus land to the landless while maintaining private ownership and encouraging diverse farming practices.

64. (B) The industrial sector has consistently employed over 50% of the Indian workforce.

India's industrial sector has evolved from a state-dominated system to a more liberalized environment where the private sector and small enterprises play crucial roles. While the Micro, Small, and Medium Enterprises sector is a massive employer, the industrial sector as a whole has never consistently employed over fifty percent of the Indian workforce. The majority of the labor force continues to be engaged in agriculture, highlighting a structural lag between sectoral output and labor redistribution.

65. (A) 1, 2 and 3 only

India's services sector growth faces several internal structural challenges. Much of the expansion is concentrated in low-productivity informal jobs, creating a dualistic labor market. The high-skill segments like information technology generate significant revenue but fail to create enough opportunities for the semi-skilled workforce. Furthermore, regulatory barriers in professional services like law and accounting hinder broader expansion. However, the sector does face intense competition from other developing nations that offer similar services at global costs.

66. (A) Both Statement I and Statement II are correct.

The Provision of Urban Amenities in Rural Areas was a developmental strategy championed to reduce the rural-urban divide. The core objective was to provide urban-style infrastructure, such as road connectivity, electronic networks, and quality education, to rural clusters. By creating better physical and economic facilities within villages, PURA aimed to improve the quality of life, generate local employment, and curb the distress migration of people from rural areas to overcrowded and burdened cities.

67. (C) Atal Mission for Rejuvenation and Urban Transformation.

The Atal Mission for Rejuvenation and Urban Transformation is a flagship program focused on improving basic urban infrastructure in five hundred selected cities. Its primary goals include ensuring universal water supply,

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enhancing sewerage and septage management, and developing green spaces and parks. By prioritizing these essential services, the mission seeks to improve the quality of life for urban residents and create more sustainable and functional cities through better planning and systematic rejuvenation of infrastructure.

68. (D) The country's imports of goods and services exceed its exports.

A deficit on the current account of the Balance of Payments signifies that the total value of goods, services, and transfers a country imports exceeds the total value of those it exports. This indicates that the nation is a net consumer of global resources and must finance the gap through capital inflows, such as foreign investment or borrowing. A persistent deficit can place downward pressure on the domestic currency and signifies a reliance on external funding.

69. (C) Power Plants: Physical Infrastructure

Infrastructure is categorized into physical and social types based on its function. Physical infrastructure includes the tangible systems necessary for economic activity and industrial production, such as power plants, highways, and ports. These facilitate the movement of goods and energy. In contrast, social infrastructure consists of facilities like schools and hospitals that focus on human development. Therefore, power plants are correctly classified as physical infrastructure because they provide the essential energy required for industrial operations.

70. (A) 1, 2, 3 and 4 only

India's capital market underwent significant modernization to enhance transparency and efficiency. These reforms included establishing SEBI as a statutory regulator, abolishing the Controller of Capital Issues to allow market-based pricing, and introducing screen-based electronic trading. The shift toward rolling settlements and the dematerialization of shares replaced the slow process of using physical share certificates. This transition aimed to protect investors, reduce transaction risks, and integrate the Indian financial market with global standards and modern technological practices.

71. (D) Formula-based distribution of the states' share of taxes among the states themselves.

Horizontal devolution refers to the process by which the shared pool of central taxes is distributed among different state governments. Unlike vertical devolution, which determines the total share given to states collectively, horizontal devolution uses a specific formula to ensure equitable allocation between individual states. This formula typically considers factors such as population, income distance, and forest cover to address regional imbalances and provide more support to states with greater fiscal needs or challenges.

72. (A) The distribution of income or wealth in a population.

The Lorenz Curve is a graphical tool used by economists to represent the distribution of income or wealth within a population. It plots the cumulative percentage of total income against the cumulative percentage of the population, starting from the poorest households. The further the curve deviates from the diagonal line of perfect equality, the higher the level of inequality. This visualization provides a clear way to analyze disparities and is the basis for calculating the Gini coefficient.

73. (C) The informal sector is characterized by stable, high-wage employment.

Unemployment in India is characterized by low female participation rates and high joblessness among educated urban youth. Underemployment remains a pervasive issue, particularly in agriculture, where workers are not utilized to their full potential. However, the informal sector is not known for stable, high-wage employment. On the contrary, it is characterized by job insecurity, low wages, and a lack of social security benefits, representing the more vulnerable segment of the labor market that lacks legal protections.

74. (A) 1950-1980

The Hindu Rate of Growth is a term used to describe the modest economic growth rate of approximately three point five percent observed in India between 1950 and 1980. Coined by Professor Raj Krishna, it highlighted stagnation caused by an inward-looking economy, rigid government controls, and a lack of industrial

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competition. This period was marked by slow progress in per capita income and stood in sharp contrast to the rapid acceleration seen after liberalization reforms.

75. (B) P-3, Q-2, R-1, S-4

India's agricultural progress has been driven by several targeted revolutions. The Green Revolution significantly increased food grain production, especially wheat and rice, through high-yielding seeds. The White Revolution, or Operation Flood, transformed the dairy sector to make India a leader in milk production. The Blue Revolution focused on the rapid growth of the fisheries and aquaculture sector. Finally, the Yellow Revolution aimed at achieving self-sufficiency in oilseeds. These initiatives collectively modernized farming and improved rural livelihoods.

76. (B) State-owned enterprises or government-owned companies.

Public Sector Undertakings are enterprises or companies where the government—either central or state—holds the majority ownership and management control. These entities were traditionally established to lead industrial development in strategic sectors, generate employment, and provide essential public services. PSUs operate under the direct oversight of the state and are intended to balance commercial profitability with social and national objectives. They remain a significant component of the Indian economy, although many have undergone recent disinvestment reforms.

77. (D) Statement I is incorrect, but Statement II is correct.

The services sector is a dominant force in the Indian economy, but its growth is not solely domestic. In fact, service exports, particularly in information technology and software, have been a major driver of expansion and foreign exchange earnings. Additionally, the sector is dominated by sub-sectors like trade, transport, and public administration, which contribute significantly to the Gross Domestic Product. Therefore, the claim that growth is only domestic or that public administration does not dominate is inaccurate.

78. (D) Lack of access to formal financial services and credit.

A major hurdle for rural development is the lack of access to formal financial services and affordable credit. Many rural households still depend on informal moneylenders who charge high interest rates, leading to cycles of debt. While rural areas also face infrastructure and employment gaps, the absence of a robust institutional credit system prevents farmers and small entrepreneurs from investing in modern technology or expanding. Improving financial inclusion is therefore vital for fostering sustainable economic growth in villages.

79. (A) Congestion and over-population in the main city.

Satellite towns are planned urban settlements developed near but independent of a primary metropolitan city. This policy is a strategic response to the extreme congestion and over-population plaguing major urban centers. By providing housing, employment, and amenities in these nearby towns, the government aims to divert the population flow away from the main city core. This reduces the burden on central infrastructure and promotes a more balanced and manageable distribution of the growing urban population.

80. (B) 2, 1, 4, 3

India's trade policy evolved from early protectionism to global integration. Initially, quantitative restrictions were introduced to manage scarce foreign exchange. This was followed by a gradual shift from import substitution toward export promotion. A major turning point occurred in 1991 with the devaluation of the Rupee to boost competitiveness. Much later, the establishment of Special Economic Zones became a primary strategy to attract investment and create high-growth, export-oriented hubs within the country's broader trade framework.

81. (B) Core defense and national security installations.

Public-Private Partnerships are effective for projects with clear revenue streams, like toll roads or power plants, where private efficiency can be leveraged. However, they are least suitable for core defense and national security

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companies to produce goods within India, thereby increasing the manufacturing sector's contribution to the Gross Domestic Product. By improving the ease of doing business and attracting significant investment, the program aims to create millions of jobs and enhance the nation's overall industrial competitiveness globally.

54. (B) Financing, insurance, real estate and business services

Business Process Outsourcing and Knowledge Process Outsourcing represent critical segments of the modern services economy. These activities involve providing specialized business services, such as technical support, accounting, and data analysis, to global clients. Within the standard classification of the service sector, these high-end professional tasks fall under the category of financing, insurance, real estate, and business services. This sub-sector has been a major driver of India's export growth and urban employment.

55. (D) All economic activities in rural areas other than crop cultivation and allied sectors.

Non-farm activities in rural development encompass all economic pursuits other than direct crop cultivation and allied agricultural work. This includes diverse sectors such as handicrafts, small-scale manufacturing, construction, retail trade, and personal services. Promoting these activities is essential for reducing the rural population's heavy dependence on land and providing alternative livelihood opportunities. It also helps in absorbing surplus labor from agriculture and mitigating the effects of seasonal and disguised unemployment.

56. (A) A uniform distribution of urban growth across all states.

Urbanization in India is associated with significant difficulties, including the rapid proliferation of slums, increasing pollution, and immense pressure on sanitation and water services. However, urban growth is not uniformly distributed across the country; instead, it is highly concentrated in specific regions and major metropolitan hubs. This uneven pattern of urbanization creates regional imbalances, with some states experiencing much faster urban expansion than others, leading to localized infrastructure deficits and socio-economic challenges.

57. (C) Link trade with the country's development and employment generation goals.

The primary goal of India's Foreign Trade Policy is to integrate trade with the broader objectives of national development and job creation. Rather than just maximizing exports, the policy focuses on creating a stable and predictable environment for businesses to engage in global commerce. By facilitating the import of necessary raw materials and capital goods, the government aims to enhance the competitiveness of domestic industries, increase high-value exports, and generate sustainable employment.

58. (A) National highways

The Golden Quadrilateral is a massive infrastructure project designed to connect India's four major metropolitan hubs—Delhi, Mumbai, Chennai, and Kolkata—through a high-quality network of national highways. By providing faster and more efficient road transport between these key economic centers, the project aims to reduce travel time, lower transportation costs, and facilitate the smoother movement of goods and people. This network serves as a backbone for industrial growth and enhances national connectivity.

59. (D) Simplify and amalgamate multiple laws into a smaller number of codes.

A key objective of recent labour reforms is the simplification and amalgamation of over forty disparate central laws into four comprehensive codes. This streamlining process aims to remove contradictions and reduce the compliance burden for businesses, thereby improving the ease of doing business. By modernizing the legal framework, the government intends to facilitate industrial growth while ensuring that workers still have access to essential social security benefits, safety standards, and fair treatment.

60. (A) Both A and R are true and R is the correct explanation of A.

The Fiscal Responsibility and Budget Management Act prioritizes the elimination of the revenue deficit to ensure fiscal sustainability. A revenue deficit occurs when the government's

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basket of industrial products. It tracks output across various sectors, including manufacturing, mining, and electricity, over a specific period compared to a base year. By providing a timely measure of industrial activity, the index helps policymakers and economists analyze the health of the industrial sector, monitor growth trends, and formulate appropriate development strategies.

89. (C) Statement I is correct, but Statement II is incorrect.

The services sector in India is incredibly heterogeneous, ranging from low-skilled informal activities like street vending to high-end professional services like software engineering. This diversity means that different sub-sectors face very different challenges and growth drivers. Therefore, a single, uniform policy approach is insufficient to address the needs of the entire sector. Effective policymaking requires targeted strategies that recognize these differences, providing support for informal workers while fostering innovation and global competitiveness in knowledge-based industries.

90. (D) 1, 2, 3 and 4

Rural development in India is hindered by several interconnected issues. High dependence on seasonal agriculture creates income uncertainty, while poor connectivity and inadequate infrastructure limit access to markets and services. Furthermore, the lack of quality healthcare and education facilities hampers human development. The prevalence of disguised unemployment, where more labor is used than necessary, further reduces productivity. Addressing these challenges requires a comprehensive strategy that integrates infrastructure improvement with social services and the diversification of rural livelihood opportunities.

91. (D) Urban housing shortage and slums

The Pradhan Mantri Awas Yojana-Urban, or the Housing for All mission, is a significant policy response to the growing challenge of urban housing shortages. As cities expand rapidly, the lack of affordable homes has led to the proliferation of slums and informal settlements with poor living conditions. This mission aims to provide dignified housing to the urban poor through various interventions, including slum redevelopment and subsidies for credit-linked housing. By addressing these needs, the program seeks to improve urban equity.

92. (B) A policy of replacing foreign imports with domestic production.

Import substitution is a trade policy strategy that emphasizes domestic production of goods previously purchased from abroad. The primary goal is to reduce a nation's foreign dependence and protect fledgling domestic industries from international competition through tariffs and quotas. By encouraging manufacturing of substitutes for imported products, the government aims to achieve self-sufficiency, save foreign exchange, and promote industrial growth. This inward-looking approach was a defining characteristic of India's economic policy for several decades following independence.

93. (C) Facilities and services that support the social development of a country, such as health and education.

Social infrastructure refers to the network of facilities and services that support human development and the social well-being of a nation's population. This includes critical sectors such as education, healthcare, sanitation, and affordable housing. Unlike physical infrastructure, which focuses on industrial productivity and trade through roads or power grids, social infrastructure aims to enhance the quality of life and build human capital. Investing in these services ensures a healthier, more skilled, and productive labor force.

94. (D) Land reforms have been uniformly and successfully implemented across all states.

Land reforms in India included diverse initiatives such as tenancy protection, the voluntary Bhoodan movement, and the consolidation of fragmented holdings to improve farm efficiency. While these policies were well-intentioned, their implementation has been highly uneven across different states. Some regions achieved significant success, while others faced political resistance and legal hurdles that stalled progress. Therefore, claiming that land reforms have been uniformly and successfully implemented nationwide is incorrect, as results vary widely by region.

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95. (A) 1, 2, 3 and 4 only

The Finance Commission is mandated by the constitution to recommend the distribution of tax proceeds between the Union and states, and among the states themselves. It also defines principles for grants-in-aid and suggests measures to augment state funds for local bodies like Panchayats and Municipalities. However, the commission has no role in setting monetary policy or repo rates, which are the exclusive responsibilities of the Reserve Bank of India. Its focus remains strictly on fiscal federalism.

96. (B) An income level below that needed for basic survival requirements.

Absolute poverty is defined as a condition where an individual or household lacks the financial resources to meet the most basic requirements for human survival. This includes essential needs such as sufficient food, clean water, basic clothing, and primitive shelter. It is typically measured against a fixed poverty line representing the minimum income or expenditure needed to purchase a basic basket of goods. Unlike relative poverty, which compares standards of living, absolute poverty focuses on deprivation.

97. (B) Seasonal Unemployment: Agricultural labourers having no work between sowing and harvesting.

Different forms of unemployment characterize the Indian labor market. Seasonal unemployment is a common feature in agriculture, where laborers find themselves without work between the peak periods of sowing and harvesting. In contrast, cyclical unemployment is linked to broad economic downturns, while frictional unemployment refers to temporary gaps during job changes. Disguised unemployment occurs when more people are employed than necessary, such as family members working on a small farm. Therefore, the pairing of agricultural labourers is accurate.

98. (A) The availability of a large, skilled, English-speaking workforce at a competitive cost.

One of the most significant drivers for the rapid expansion of India's modern services sector has been the availability of a vast pool of skilled, English-speaking professionals. This labor force provides a competitive cost advantage in the global market, particularly for information technology and business process management industries. Coupled with the digital revolution and favorable telecom policies, this human capital has allowed India to become a leading hub for high-end service exports, bypassing traditional developmental reliance on manufacturing.

99. (C) A consistent surplus of cold storage facilities.

Indian agriculture faces numerous systemic challenges, including low productivity compared to global standards, a heavy reliance on erratic monsoon rainfall, and inadequate marketing infrastructure. These factors contribute to farmer distress and economic instability. However, a consistent surplus of cold storage facilities is not a reality; instead, there is a severe shortage of such facilities. This lack of cold-chain infrastructure leads to significant post-harvest losses, particularly for perishable crops like fruits and vegetables, preventing farmers from receiving fair prices.

100. (C) P-4, Q-2, R-3, S-1

India's economic policy has evolved through distinct phases. The 1956 resolution prioritized the public sector for a socialist society. The 1991 reforms introduced the LPG model—liberalization, privatization, and globalization. More recently, the Make in India initiative aims to transform the country into a global manufacturing hub, while the Startup India initiative focuses on fostering entrepreneurship and innovation. These policies reflect a shift from state-led control toward a more dynamic, market-driven economy that encourages private investment and technological advancement.

101. (C) FDI is long-term and involves management control, while FPI is short-term investment in financial assets.

Foreign Direct Investment and Foreign Portfolio Investment represent different types of international capital flows. FDI involves a long-term commitment where a foreign investor acquires a substantial interest and management control in a domestic enterprise, often bringing technology and expertise. In contrast, FPI involves purchasing financial assets like stocks and bonds for shorter durations without seeking management influence. While FDI provides

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stability and fosters long-term growth, FPI is more liquid and volatile, as it can be withdrawn.

102. (D) Statement I is incorrect, but Statement II is correct.
Public-Private Partnerships are designed to bridge the infrastructure gap by utilizing private sector capital and operational efficiency. In these arrangements, the government does not completely transfer ownership of the asset; instead, the private partner is typically granted a concession to build and operate the project for a specific period. After this term, the asset usually reverts to the state. Therefore, Statement I is incorrect while Statement II accurately reflects why PPPs are seen as a vital tool for development.

103. (D) Minimum wages, payment of wages, bonus, and equal remuneration.
The Code on Wages, 2019, is a significant part of labor reform that amalgamates four important central laws. It simplifies and streamlines regulations concerning the fixing of minimum wages, timely payment of wages, and the distribution of bonuses. It also ensures equal remuneration for both men and women for work of the same nature. By consolidating these disparate acts, the code aims to provide a more uniform and clear framework for wage administration, benefiting both employers and employees.

104. (A) The President of India
The Finance Commission is a constitutional body established under Article 280. The President of India is responsible for appointing the Chairman and the other members of the commission. This process occurs every five years, or earlier if the President considers it necessary. The commission plays a vital role in fiscal federalism by recommending how tax revenues should be distributed between the center and the states, ensuring that financial resources are allocated systematically and fairly across the country.

105. (C) Perfect inequality in income distribution.
The Gini coefficient is a standard statistical measure used to quantify income or wealth inequality within a population. It is expressed as a value between zero and one. A coefficient of zero indicates perfect equality, where everyone has the same income. In contrast, a coefficient of one, or one hundred percent, represents perfect inequality, a theoretical situation where a single individual possesses all the income while everyone else has none. This metric helps monitor the gap between groups.

106. (A) The marginal productivity of some of the workers is close to zero.
Disguised unemployment in the agricultural sector occurs when more workers are engaged in farming than are actually needed to achieve the current level of production. In this situation, the marginal productivity of surplus workers is close to zero, meaning their removal would not decrease total output. This often happens because family members work on small plots of land due to a lack of alternative employment opportunities, leading to an inefficient use of national labor resources.

107. (D) The growth has been consistently led by the agricultural sector, which remains the largest contributor to GDP.
India's economic history shows a transition from the slow Hindu rate of growth to a higher growth trajectory accelerated by the 1991 reforms. The services sector has indeed emerged as the primary driver of national output in recent decades. However, the claim that growth has been consistently led by the agricultural sector is incorrect. While agriculture remains a vital source of employment, its relative share of the Gross Domestic Product has declined significantly as other sectors expanded.

108. (B) Increased stress on water resources and soil degradation due to overuse of inputs.
The Green Revolution brought about food self-sufficiency but also resulted in significant environmental and social challenges. Heavy reliance on high-yielding seeds required massive amounts of chemical fertilizers and intensive irrigation. Over time, this led to severe soil degradation and depletion of groundwater resources in many regions. Furthermore, the focus on a few specific crops and regions increased regional disparities and interpersonal inequalities. These negative consequences highlight the need for more sustainable farming practices.

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installations. These sensitive sectors require absolute government control, confidentiality, and sovereign oversight that are difficult to maintain in partnership with private entities. Security-driven operations do not follow a commercial profit motive and involve risks that the state cannot safely transfer to others.

82. (A) To bring tenants into direct contact with the state and make them owners of the land they tilled.

The abolition of intermediaries was a foundational land reform aimed at eliminating the exploitative Zamindari system. Its primary objective was to remove the middleman between the state and the actual tillers of the land. By bringing tenants into direct contact with the government, the policy intended to grant ownership rights to the cultivators. This was expected to provide farmers with greater security, incentives to invest in their land, and a more equitable distribution of agricultural wealth.

83. (C) Article 280

The Finance Commission of India is a constitutional body established under Article 280. The President of India constitutes this commission every five years or earlier as needed to define the financial relations between the central government and the states. Its main function is to recommend the distribution of tax revenues and the principles for providing grants-in-aid. This constitutional provision ensures a systematic and transparent mechanism for managing fiscal federalism and addressing resource gaps among different government levels.

84. (D) To maintain a fixed exchange rate for the Indian Rupee.

The Fiscal Responsibility and Budget Management Act was designed to enforce fiscal discipline through specific targets. These included eliminating the revenue deficit, reducing the fiscal deficit to three percent of GDP, and placing limits on total government borrowings. However, maintaining a fixed exchange rate for the Indian Rupee was never a goal of this act. Exchange rate management is a function of monetary policy and the Reserve Bank of India, rather than a target of fiscal management.

85. (A) Both A and R are true and R is the correct explanation of A.

Economic growth is a vital prerequisite for reducing poverty because it increases the overall resources available in a country. However, growth alone is not sufficient if the resulting wealth is concentrated among the rich. If income inequality rises at the same time, the benefits may not percolate down to the poorest sections of society. Therefore, for growth to be effective in eradicating poverty, it must be inclusive and accompanied by policies that ensure equitable distribution of opportunities.

86. (B) A significant increase in the share of the services sector in GDP.

The 1991 economic reforms triggered a profound structural shift in the Indian economy. The most prominent feature of this change has been the rapid expansion of the services sector, which now contributes the largest share to the national Gross Domestic Product. While agriculture's relative importance in total output has declined, the services sector has emerged as the primary engine of growth. This transformation indicates a move away from an agrarian-focused economy toward a modern, technology-driven structure.

87. (D) Hinders mechanization and makes farming economically unviable.

Fragmentation of landholdings in India occurs when small plots of land are divided among heirs over generations. This process is a significant challenge because it makes modern farm mechanization and the use of large-scale irrigation systems physically and financially impossible. Scattered, tiny plots increase the cost of cultivation and lower overall productivity, ultimately making farming economically unviable. This structural issue prevents the agricultural sector from achieving the economies of scale necessary for modernization and increased competitiveness.

88. (A) The volume of production in the industrial sector over a period.

The Index of Industrial Production is a vital economic indicator that quantifies short-term changes in the volume of production for a

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of implementation varied widely depending on local conditions.

116. (D) A national security threat or a national calamity.

The Fiscal Responsibility and Budget Management framework includes an escape clause that allows the government to deviate from its annual fiscal deficit targets under exceptional circumstances. These conditions typically include national security threats, acts of war, national calamities, or a collapse in agricultural growth. This provision acknowledges that unforeseen emergencies require increased public spending that might temporarily override normal discipline rules. Using this clause provides the government with flexibility to respond to major crises without violating the legislation.

117. (C) The poverty level in relation to the overall standard of living in a society.

Relative poverty defines a person's economic status in comparison to the average standard of living within their specific society. Unlike absolute poverty, which focuses on a fixed threshold for survival, relative poverty identifies individuals who lack the resources to participate in the activities and enjoy the lifestyle that are customary in their community. This measure highlights income inequality and social exclusion. It changes as a society becomes wealthier, reflecting the gap between the poorest households and general prosperity.

118. (B) Disguised unemployment means there are too few workers for the available work.

Different types of unemployment reflect various economic conditions. Frictional unemployment is temporary, structural unemployment stems from fundamental economic changes, and cyclical unemployment follows the business cycle. However, the description of disguised unemployment as having too few workers is incorrect. Disguised unemployment actually refers to a situation where there are too many workers for a specific task, leading to low or zero marginal productivity. This is common in the agricultural sector, where more labor is used than necessary.

119. (D) Rapid growth of the services sector's share in GDP without a corresponding shift in employment.

A major feature of structural change in the Indian economy is the rapid expansion of the services sector's share in the Gross Domestic Product. However, this shift in output has not been accompanied by a similar movement in employment. While the services sector generates over half of national income, the majority of the workforce remains dependent on agriculture. This misalignment indicates that the transition has not yet translated into a balanced redistribution of labor across all economic sectors.

120. (B) 1, 2, 3 and 4 only

Indian agriculture is beset by several major structural and environmental challenges. A heavy reliance on the unpredictable monsoon makes farming risky, while low mechanization and fragmented land holdings prevent the adoption of modern, efficient techniques. Furthermore, inadequate marketing infrastructure often prevents farmers from receiving fair prices. While labor surplus is an issue, it is not consistent across all regions. Therefore, the most pervasive challenges involve dependence on rain, low technology, small plots, and poor marketing systems.

121. (C) 1956

The Industrial Policy Resolution of 1956 is frequently referred to as the Economic Constitution of India. It established a clear roadmap for state-led industrialization and aimed to create a socialist pattern of society. The resolution categorized industries into three groups, reserving strategic sectors for the public sector while defining the role of private enterprise. By placing the public sector at the commanding heights of the economy, it laid the foundation for the heavy industrial base that dominated for decades.

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122. (A) IT and Software Services: Financing, Insurance, Real Estate & Business Services

The services sector is divided into various sub-sectors based on the nature of the activities. Information technology and software services are professional business activities that fall under the category of financing, insurance, real estate,

encroachment on valuable agricultural land and destruction of natural habitats. Additionally, horizontal growth of urban areas increases travel distances, leading to longer commutes and higher levels of air pollution from vehicles. This unplanned expansion also places immense strain on the government's ability to provide essential public services like water, sanitation, and efficient transport to residents.

137. (C) FDI and FPI are both components of the current account of the Balance of Payments.
India's policies toward foreign capital have been significantly liberalized since 1991, leading to a massive increase in inflows. Foreign Direct Investment is generally preferred because it offers more stability than the more liquid and volatile Foreign Portfolio Investment. However, it is incorrect to classify these investments as part of the current account. FDI and FPI are recorded in the capital account of the Balance of Payments, as they involve changes in the ownership of assets and liabilities.

138. (A) By creating bottlenecks, increasing transaction costs, and reducing competitiveness.
Inadequate infrastructure serves as a major bottleneck that hinders a country's economic potential. Poor transport networks, unstable power supplies, and weak communication systems increase transaction costs and lead to significant delays in production and distribution. These inefficiencies make domestic products less competitive in both local and global markets. By creating such bottlenecks, weak infrastructure discourages investment, reduces overall productivity, and slows down the pace of growth. Therefore, developing robust infrastructure is essential for improving business efficiency and national development.

139. (A) Both Statement I and Statement II are correct.
The abolition of the Controller of Capital Issues was a landmark reform that signaled a shift toward a market-oriented financial system. Previously, the government strictly controlled the pricing of new equity issues. By removing these controls, companies were allowed to price their shares based on market demand and investor perception. This change improved transparency and efficiency in the primary market, making it easier for businesses to raise capital and allowing the market to play a greater role in resources.

140. (C) 1, 2 and 3 only
The Fiscal Responsibility and Budget Management framework was established to institutionalize financial discipline. Its main objectives include reducing the central government's fiscal deficit, eliminating the revenue deficit, and ensuring inter-generational equity by preventing excessive debt accumulation. These measures aim to create a stable macroeconomic environment and ensure public finances are managed sustainably. However, setting inflation targets for the Reserve Bank is a function of the monetary policy framework, rather than being a direct objective of the FRBM Act itself.

141. (C) M. L. Dantwala
The Planning Commission established several expert groups to refine the measurement of employment and unemployment in India. One of the most influential task forces was headed by M. L. Dantwala. This committee critically examined existing methodologies and suggested more nuanced ways to capture the complexities of the Indian labor market, such as the distinction between usual status, current weekly status, and daily status unemployment. These recommendations provided a more accurate basis for formulating employment policies and understanding joblessness.

142. (D) Squared Poverty Gap: Measures the severity of poverty by giving more weight to the poorest.
Poverty can be quantified using various specialized metrics. The Head Count Ratio calculates the percentage of the poor population, while the Poverty Gap Index measures the depth of their deprivation. The Lorenz Curve graphically represents income distribution rather than absolute poverty. In contrast, the Squared Poverty Gap is a more sensitive measure that accounts for the severity of poverty. By squaring the shortfall of each individual from the poverty line, it gives greater weight to the poorest.

143. (A) A sustained increase in a country's real per capita income or real GDP.

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norm. The committee moved away from this focus and introduced a broader consumption basket that included expenditure on essential services like healthcare and education. This shift acknowledged that meeting basic survival needs requires more than just food. By incorporating these social costs, the new methodology provided a more comprehensive and realistic assessment.

130. (B) 4, 3, 1, 2
The Finance Commission is a periodic body, and its leadership has changed over the decades. K. C. Neogy headed the very first commission. Much later, Vijay Kelkar chaired the 13th commission, followed by Y. V. Reddy for the 14th. N. K. Singh served as the Chairman for the most recent 15th Finance Commission. This chronological sequence reflects the evolution of India's fiscal federalism and the varying economic priorities addressed by each commission as they formulated their financial recommendations.

131. (C) A consistent trade surplus since independence.
The Indian economy is characterized by several structural features, including the dominance of the services sector in output and a large workforce still dependent on agriculture. The economy also has a vast informal sector with limited legal protections. However, maintaining a consistent trade surplus is not a structural feature of India. Historically, the country has frequently experienced a trade deficit, where the value of its imports exceeds its exports. This imbalance reflects India's reliance on imported energy and capital goods.

132. (D) Market intervention to protect farmers from sharp price falls.
The Minimum Support Price is a critical policy tool used by the government to stabilize agricultural markets and protect the interests of farmers. It acts as a form of market intervention where the government guarantees a floor price for specific crops. If market prices fall below this level due to bumper harvests or other factors, the government procures produce directly at the MSP. This ensures that farmers are shielded from sharp price volatility and can recover their cultivation costs.

133. (C) Issues related to land acquisition and environmental clearances.

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A major hurdle for industrial expansion in India involves the complexities of land acquisition and obtaining environmental clearances. These processes often involve legal disputes, lengthy bureaucratic procedures, and local resistance, leading to significant project delays and increased costs. While domestic demand is strong and capital is available, these regulatory and administrative bottlenecks deter investment. Overcoming these challenges is essential for improving the ease of doing business and ensuring the timely implementation of large-scale industrial and infrastructure projects nationwide.

134. (B) Services sector
The tertiary sector is another name for the services sector within an economy. While the primary sector involves natural resource extraction and the secondary sector focuses on manufacturing, the tertiary sector provides a wide range of intangible activities and support functions. This includes trade, transportation, banking, education, and healthcare. In modern economies like India, the tertiary sector has become the largest contributor to national output, reflecting a shift toward a more knowledge-based and service-oriented economic structure following industrialization.

135. (A) Both A and R are true and R is the correct explanation of A.
India's development is marked by a significant divide between rural and urban areas. Cities generally serve as hubs of economic activity, offering better infrastructure, superior healthcare, and more diverse educational facilities. Furthermore, urban areas provide a wider range of non-farm employment opportunities that typically offer higher wages. In contrast, rural areas often lag in these aspects and remain heavily dependent on seasonal agriculture. This disparity in resources and opportunities drives migration toward cities and presents a major challenge for growth.

136. (A) Encroachment on agricultural land and increased pollution from longer commutes.
Urban sprawl poses a significant challenge because it involves the low-density, unplanned expansion of cities into the surrounding countryside. This process often leads to

and business services. In contrast, retail trade is part of the trade and hotels group, and public administration is classified under community and social services. Correctly identifying these pairings is essential for analyzing growth trends and employment patterns within India's diverse service economy.

123. (D) The perceived availability of better employment opportunities in cities.

Rural-urban migration is driven by both push and pull factors. Push factors include rural poverty and land pressure, while pull factors are attractions that draw people toward cities. The perceived availability of better employment opportunities and higher wages in urban areas is the most significant pull factor. Cities are seen as hubs of economic activity where individuals can find a wider variety of jobs, better educational facilities, and improved access to health services compared to rural options.

124. (B) Creating basic urban infrastructure such as water supply, sewerage, and transport in cities.

The Atal Mission for Rejuvenation and Urban Transformation is a flagship program designed to improve city living by focusing on core infrastructure. Its primary objective is to ensure that every household has access to a reliable water supply and a functional sewerage connection. Additionally, the mission supports the development of storm-water drains, efficient public transport, and green spaces. By prioritizing these basic urban services, the mission aims to transform cities into more sustainable and livable environments for residents.

125. (A) P-4, Q-3, R-1, S-2

International trade involves various mechanisms and economic conditions. Devaluation is a deliberate reduction in a currency's value to boost exports. Tariffs are taxes imposed on imported goods to protect domestic industries, while quotas are quantitative limits on imports. A current account deficit occurs when a nation's total imports and transfers exceed its total exports. Understanding these terms is essential for analyzing a country's trade policy and its overall balance of payments, reflecting its economic interactions with the world.

126. (D) Statement I is incorrect, but Statement II is correct.

Physical and social infrastructure are not mutually exclusive; instead, they are deeply interconnected and support each other. While physical infrastructure like roads and power provides necessary systems for industrial production, social infrastructure like education and health improves the quality of human capital. A well-educated and healthy labor force is more capable of designing, building, and maintaining sophisticated physical systems. Therefore, investments in social infrastructure create the human skills required to maximize the efficiency of national assets.

127. (A) To increase the rigidity of hiring and firing norms for all firms.

Recent labour market reforms in India aim to simplify the legal framework by consolidating multiple laws and expanding social security to unorganized workers. These changes are intended to facilitate ease of doing business and encourage industrial growth. However, increasing the rigidity of hiring and firing norms is not an objective. Instead, the reforms seek to provide greater flexibility to employers while maintaining a balance with workers' rights, helping establishments adapt to market changes more effectively and efficiently.

128. (B) Vertical and horizontal fiscal imbalances.

The distribution of tax proceeds from the center to the states is a key instrument for managing India's fiscal federalism. This process aims to address both vertical and horizontal fiscal imbalances. A vertical imbalance occurs because the center has more revenue-raising power, while states have greater spending responsibilities. Horizontal imbalances arise due to the varying developmental levels of different states. By recommending an equitable formula for devolution, the Finance Commission ensures that all states have adequate resources.

129. (B) Moved away from a calorie-based norm to a broader consumption basket including health and education expenditure.

The Tendulkar Committee methodology marked a significant change in how poverty is estimated in India. Previously, poverty lines were largely based on a narrow calorie-intake

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Economic growth is best defined as a sustained and long-term increase in a country's real Gross Domestic Product or real per capita income. It focuses on the quantitative expansion of the economy's total output of goods and services over time. While related to economic development, which includes qualitative improvements in human welfare and structural changes, economic growth specifically refers to numerical rise in production levels. This expansion provides necessary resources for a nation to improve infrastructure and social services.

144. (B) Fragmentation of markets and lack of transparent price discovery

The e-NAM platform is a technological response designed to modernize India's agricultural marketing system. Historically, the market for farm produce has been fragmented into many small, local mandis controlled by intermediaries. This lack of integration prevented transparent price discovery and often resulted in farmers receiving low prices. By creating a unified national electronic market, e-NAM allows buyers and sellers from different regions to interact directly. This integration fosters competition, ensures transparent pricing, and helps farmers secure a better share.

145. (A) 1, 2, 3 and 5 only

Industrial sickness in India occurs when a company's financial health deteriorates to the point where it can no longer sustain operations. Major causes include internal factors like managerial incompetence, poor project implementation, and use of obsolete technology. External factors such as a lack of demand due to market recession and delayed availability of finance also play a role. However, favorable and flexible labor laws are generally considered a benefit. Sickness is more often linked to rigid regulations preventing adjustment.

146. (A) The services sector growing to a dominant position without a robust manufacturing sector-led growth phase.

Leapfrogging in the context of India's development describes a unique growth pattern where the economy bypassed the traditional industrialization phase. Instead of a sequential transition from agriculture to a dominant manufacturing sector and then to services, India moved directly to a services-led growth model. This shift was driven by rapid expansion of high-end knowledge industries like information technology. As a result, the services sector now contributes the majority of national output, even though the manufacturing base remains smaller.

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147. (C) A multi-pronged strategy focusing on agriculture, infrastructure, health, education, and non-farm employment.

A truly holistic approach to rural development acknowledges that improving the lives of village residents requires more than just focusing on one area. It involves a multi-pronged strategy that simultaneously addresses various needs. This includes boosting agricultural productivity, developing essential infrastructure like roads and power, and ensuring access to quality health and education services. Additionally, promoting non-farm employment is vital to provide diverse livelihood options. By integrating these different components, the government can create a more resilient rural economy.

148. (D) All urban development schemes are exclusively funded by the central government with no state contribution.

Urban development in India is guided by several comprehensive missions. The Smart Cities Mission uses technology for better living, while AMRUT focuses on basic infrastructure like water and sewerage. The PMAY-U addresses the critical shortage of urban housing. However, it is incorrect to state that these schemes are exclusively funded by the central government. In the Indian federal system, urban development is a shared responsibility, and most major programs involve significant financial contributions and implementation from state governments.

149. (C) Foreign Trade Policy

The rules and incentives governing India's international trade, formerly known as the EXIM policy, are now formulated and announced as part of the Foreign Trade Policy. This policy provides a comprehensive framework for both exports and imports over a multi-year period. By outlining government strategy for trade integration, market diversification, and procedural simplification, it aims to create a

stable environment for businesses. The Foreign Trade Policy is a vital tool for aligning India's commercial interests with growth.

150. (B) P-2, Q-1, R-4, S-3
Public-Private Partnerships use various models to deliver infrastructure. Under Build-Operate-Transfer, a private entity builds and operates an asset before returning it to the state. Build-Own-Operate allows the private player to retain ownership indefinitely. The Hybrid Annuity Model involves the government paying part of the cost upfront and the rest in regular installments. In contrast, Engineering, Procurement, Construction is a simpler model where a contractor delivers a ready-to-use project for a fixed price. These frameworks allow effective risk allocation.

151. (D) A system dominated by short-term freelance work and contracts.
The gig economy refers to a modern labor market characterized by prevalence of short-term contracts and freelance work instead of traditional, permanent jobs. In this system, individuals often work as independent contractors for various platforms, performing specific tasks or gigs. This model offers greater flexibility for both workers and employers but often lacks stability, social security benefits, and legal protections associated with formal, full-time employment. Growth of digital platforms has significantly accelerated this trend in service-oriented sectors.

152. (D) Statement I is incorrect, but Statement II is correct.
The Finance Commission is a constitutional body established to provide guidance on fiscal federalism. According to the Constitution, its primary role is to make recommendations to the President regarding distribution of tax revenues and other financial matters. However, these recommendations are not legally mandatory or binding on the Government. In practice, while the government almost always accepts the commission's core recommendations on tax devolution, it retains sovereign authority to decide how to implement suggestions within its broader legislative framework.

153. (C) The expenditure required for a minimum basket of goods and services.
In the Indian context, the official poverty line has traditionally been defined based on the level of expenditure required for a person to afford a minimum basket of goods and services. This basket includes a specific amount of food to meet nutritional needs, along with other essential non-food items like clothing and fuel. By setting a minimum monetary threshold for this consumption, the government can identify the proportion of the population unable to meet survival requirements for policy purposes.

154. (A) Increasing the repo rate to curb inflation.
To combat unemployment, the Indian government uses various strategies, including the Skill India Mission for training, MUDRA for entrepreneurship, and MGNREGA for guaranteed manual labor. These programs aim to increase both the demand for and supply of qualified labor. However, increasing the repo rate is not a measure to tackle unemployment. The repo rate is a tool of monetary policy used by the Reserve Bank primarily to control inflation. Higher interest rates can sometimes slow down economic expansion and job creation.

155. (D) The young population is provided with quality education, skills, and adequate employment opportunities.
India's large young population represents a potential demographic dividend that can significantly boost economic growth. However, this advantage is not automatic; it can only be realized if the youth are healthy, educated, and possess the skills demanded by a modern economy. Furthermore, the economy must generate enough productive employment opportunities to absorb this growing labor force. Without adequate investment in human capital and job creation, a high dependency ratio could instead lead to social unrest and resource wastage.

156. (B) A skewed cropping pattern favouring wheat and rice, and a deficit in other crops.
A policy that provides high Minimum Support Prices only for wheat and rice can lead to significant distortions in the agricultural sector. Because these crops offer more financial security, farmers tend to shift away from other essential

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crops like pulses, oilseeds, and coarse cereals. This results in a skewed cropping pattern that ignores nutritional diversity. Furthermore, intensive cultivation of wheat and rice often leads to excessive groundwater depletion and soil degradation, creating long-term environmental challenges and a national deficit.

157. (C) It has easy and widespread access to formal credit and advanced technology.

The Micro, Small, and Medium Enterprises sector is a powerhouse of the Indian economy, contributing heavily to manufacturing output, exports, and job creation. However, many small businesses face significant hurdles that limit their potential. Unlike large corporations, MSMEs often struggle with limited access to formal credit and find it difficult to adopt advanced, modern technologies due to high costs. These constraints prevent many small enterprises from scaling up, highlighting the need for targeted policies that enhance financial inclusion and technological support.

158. (D) Software and I.T. enabled services (ITeS)

India's services sector has become a major global player, particularly through its exports. The most significant contributor to this growth has been the software and information technology-enabled services sub-sector. By leveraging a large pool of skilled professionals, India has established itself as a leading destination for business process management and software development. These high-value exports generate substantial foreign exchange and have transformed India's trade, making it less dependent on primary goods and more focused on knowledge-based services globally.

159. (A) A small voluntary association of people solving common problems via mutual help.

A Self-Help Group is a small, voluntary association of people, typically from a similar socio-economic background, who come together to address common problems through mutual aid. In rural development, these groups focus on encouraging thrift and providing small loans to members for emergency needs or livelihood activities. By pooling savings and gaining access to institutional credit through bank linkages, SHGs empower individuals—particularly women—to become financially independent, improve their bargaining power, and participate more actively in community development.

160. (A) Both A and R are true and R is the correct explanation of A.

Rapid and unplanned urbanization in India has placed severe stress on existing city infrastructure. As the urban population grows at a pace that far exceeds the creation of new civic facilities, cities face critical challenges in providing basic services. This has led to a widespread shortage of affordable housing, inadequate water supply, and inefficient sanitation and waste management systems. Addressing this gap requires massive investment and better long-term planning to ensure that urban expansion is sustainable and accessible for all.

161. (B) The freedom to convert rupees into foreign currency for trade in goods and services and other specified current transactions.

Convertibility on the current account for the Indian Rupee allows individuals and businesses to freely exchange rupees for foreign currency to conduct international trade in goods and services. This also covers other specified transactions like interest payments on loans and remittances for family maintenance. Unlike capital account convertibility, which involves the free movement of investment capital and assets, current account convertibility focuses on facilitating daily commercial activities. This policy is essential for integrating the domestic economy with world markets.

162. (A) Combine the public sector's social objectives with the private sector's efficiency and capital.

The primary rationale for adopting Public-Private Partnerships in infrastructure development is to combine the public sector's focus on social objectives with the private sector's capital and operational efficiency. In these arrangements, the government provides the regulatory framework and identifies public needs, while the private partner brings in funding and technical expertise to build and manage projects more effectively. This collaboration allows for better risk allocation, faster project delivery, and the creation of high-quality infrastructure despite fiscal constraints.

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it is incorrect to say that its recommendations are limited only to income tax. In fact, the commission recommends the distribution of the entire shared pool of central taxes, including corporate taxes, ensuring a fair allocation.

177. (C) Statement I is correct, but Statement II is incorrect.

The Kuznets curve hypothesis suggests that economic inequality initially increases as a country develops but eventually decreases after reaching a certain income level, forming an inverted U-shape. While this theory is influential, India's experience has not perfectly followed this pattern. In fact, many periods of high growth in India have been accompanied by rising income and wealth disparities. Therefore, while the hypothesis provides a framework for analyzing growth and inequality, it does not fully describe India's complex reality.

178. (A) The number of persons in the labour force (employed or unemployed) as a percentage of the working-age population.

The Labour Force Participation Rate is a key labor market indicator that measures the proportion of the working-age population that is economically active. It is defined as the total number of persons in the labor force—which includes both the employed and those who are unemployed but actively seeking work—as a percentage of the total population of working age. This metric provides a clear picture of the supply of labor and helps policymakers analyze trends in employment and joblessness.

179. (C) Eleventh Five-Year Plan

The concept of inclusive growth became a central theme of India's development strategy starting with the Eleventh Five-Year Plan. This approach emphasizes that economic growth should not only be rapid but also broad-based and benefit all sections of society, especially the marginalized. The goal is to reduce poverty and inequality while ensuring that everyone has equal access to opportunities like education, health, and productive employment. This shift marked an important move toward balancing numerical expansion with social justice.

180. (A) 2, 1, 3, 4

India's economic history is marked by several pivotal events. The Planning Commission was established shortly after independence in 1950. Nearly two decades later, the government nationalized fourteen major commercial banks in 1969 to expand rural credit. A major structural change occurred in 1991 with the introduction of the New Economic Policy and LPG reforms. Much later, the Fiscal Responsibility and Budget Management Act was enacted in 2003 to institutionalize financial discipline. This sequence reflects the transition toward a liberalized economy.

181. (C) Crop failure due to natural calamities, pests, and diseases.

The Pradhan Mantri Fasal Bima Yojana is a comprehensive crop insurance scheme designed to provide financial protection to farmers against unforeseen risks. It covers crop failures caused by natural calamities like floods and droughts, as well as damage from pests and diseases. By providing insurance coverage at affordable premiums, the program aims to stabilize the income of farmers and encourage them to adopt modern agricultural practices. This initiative is a vital policy response to the risks associated with farming.

182. (B) Promote competition and remove bureaucratic hurdles for setting up new industries.

The policy of industrial delicensing was a cornerstone of the 1991 economic reforms aimed at ending the restrictive License Raj. By removing the mandatory requirement for government permission to start or expand most industries, the policy intended to foster competition and encourage private investment. This deregulation reduced bureaucratic hurdles and allowed businesses to respond more quickly to market demands. The goal was to improve industrial efficiency, attract technology, and move toward a dynamic, market-driven economy with private sector participation.

183. (D) A policy of high tariff protection for service imports.

India's rapid service sector growth has been driven by several factors, including a large pool of skilled English-speaking labor, the digital revolution, and telecom reforms. Additionally, rising domestic demand from a growing

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effectively in the international market while remaining under the strategic direction of the state.

170. (A) 1, 2, 3 and 4 only

India's services-led growth has created a dualistic economy where high-productivity formal segments coexist with a vast, low-productivity informal sector. The formal services sector, while high-growth, has not created enough jobs for the nation's large pool of low-skilled workers. Furthermore, this growth has been heavily dependent on external demand, making the economy vulnerable to global shocks. Most importantly, the sector has not effectively absorbed surplus labor from agriculture, which remains a critical challenge for achieving inclusive regional development.

171. (D) All-weather road connectivity to unconnected habitations.

The Pradhan Mantri Gram Sadak Yojana is a significant nationwide program aimed at improving rural connectivity. Its primary objective is to provide all-weather road access to previously unconnected habitations in rural areas. By ensuring that villages are linked to the wider road network, the scheme facilitates better access to markets, schools, and healthcare facilities. Improved road connectivity is a vital driver of rural development, as it reduces transportation costs and helps integrate rural communities into the broader economy.

172. (B) A lack of functions, funds, and functionaries.

A major hurdle for effective urban governance in India is the weak structure of Urban Local Bodies. Despite constitutional empowerment, many municipalities suffer from a severe lack of functions, funds, and functionaries. They often do not have the financial autonomy or the technical staff required to manage complex urban services like water supply, waste management, and city planning. This institutional weakness prevents ULBs from responding effectively to the needs of residents, leading to infrastructure deficits and poor public services.

173. (C) A shift in import composition, with capital goods, raw materials, and intermediates forming a large part to support domestic industry.

Since 1991, trade liberalization has significantly altered the structure of India's imports. Rather than focusing solely on consumer goods, the composition of imports has shifted to support domestic industrial growth. A large portion of imports now consists of essential capital goods, raw materials, and intermediate products required by Indian factories. This shift allows domestic industries to access modern technology and high-quality inputs from the global market. By facilitating these imports, the government aims to boost productivity.

174. (D) Enhances the skills, health, and productivity of the population (human capital).

Investing in schools and hospitals is fundamental to building a nation's social infrastructure. Unlike physical assets, these services focus on improving the human capital of the population. Quality education provides individuals with the skills needed for a modern workforce, while better healthcare ensures a healthy population. Together, these factors significantly enhance overall labor productivity and foster innovation. Therefore, social infrastructure is a critical driver of long-term economic growth, as it creates a more capable workforce for all sectors.

175. (B) P-2, R-4, S-1, T-3

Recent labour reforms in India consolidated dozens of laws into four comprehensive codes. The Code on Wages regulates pay and bonuses, while the Industrial Relations Code deals with trade unions and employment conditions. The Social Security Code amalgamates various laws on employee benefits and maternity protection. Lastly, the Occupational Safety, Health and Working Conditions Code sets standards for the physical environment and well-being of workers. These codes aim to simplify the legal framework, improve business flexibility, and ensure protection.

176. (B) Its recommendations are limited to the distribution of only income tax between the Centre and States.

The Finance Commission is a quasi-judicial constitutional body appointed by the President every five years. It plays a vital role in India's fiscal federalism by recommending the distribution of tax revenues and the principles for providing grants-in-aid to the states. However,

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163. (A) Both Statement I and Statement II are correct.
India has implemented several reforms to modernize land administration and restructure agrarian relations. The computerization of land records was a significant step toward improving transparency, reducing disputes, and making land transactions more efficient for farmers. At the same time, earlier land reforms like the imposition of ceilings were intended to redistribute surplus land to the landless. However, the success of these ceiling laws was often limited by poor administrative implementation and various legal hurdles that allowed landowners to bypass regulations.

164. (D) Difference between the government's total expenditure and its total receipts excluding borrowings.
The fiscal deficit is a key indicator of a government's overall financial health. It represents the difference between the government's total expenditure and its total receipts, excluding any borrowed money. This gap signifies the total amount that the government must borrow from various sources to fund its activities during a specific financial year. While a moderate deficit can support economic growth through infrastructure investment, an excessively high fiscal deficit can lead to inflation and a long-term burden of debt.

165. (B) 1, 2 and 3 only
The Multidimensional Poverty Index is a comprehensive tool used to measure the diverse forms of deprivation that poor people experience beyond just low income. It evaluates poverty across three key dimensions: health, education, and standard of living. Within these dimensions, the index tracks specific indicators such as nutrition, school attendance, and access to basic amenities like water and electricity. By focusing on these non-monetary factors, the MPI provides a more detailed picture of deprivation for policy design.

166. (B) Cyclical Unemployment: A graduate who cannot find a job due to a lack of skills.
Unemployment is categorized into several types based on its cause. Seasonal unemployment occurs during off-peak times in agriculture, while frictional unemployment refers to temporary gaps during job transitions. Structural unemployment arises from long-term shifts in technology that make certain skills obsolete. However, a graduate who cannot find a job due to a lack of specific skills is an example of structural unemployment, not cyclical unemployment. Cyclical unemployment is strictly related to overall business downturns and general economic recessions.

167. (D) A pro-business tilt in government policy and expansionary fiscal policy.
While the 1991 reforms are well-known, India's economic growth actually began to accelerate during the 1980s. Some economists attribute this earlier shift to a pro-business tilt in government policy, which involved some deregulation and a focus on improving industrial efficiency. Additionally, an expansionary fiscal policy during this period increased public investment and boosted domestic demand. While these measures were less comprehensive than the later liberalization, they moved the economy away from the slower Hindu rate of growth trajectory.

168. (A) Unregistered local moneylenders
Institutional agricultural credit in India is provided through a structured network of formal organizations, including commercial banks, regional rural banks, and various cooperative banks. These institutions are regulated and aim to provide farmers with timely and affordable finance for production and investment. In contrast, unregistered local moneylenders are part of the informal credit system. While they are a common source of loans in rural areas, they often charge exploitative interest rates and operate outside legal frameworks.

169. (C) Enhanced financial and operational autonomy to compete globally.
The Navratna status is a prestigious category granted to selected central public sector enterprises that have shown consistently strong financial performance and operational excellence. This status provides these companies with enhanced financial and operational autonomy, allowing them to make major investment decisions and enter into global partnerships without seeking frequent government approvals. The goal is to empower these successful PSUs to compete more

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middle class and the manufacturing sector has supported expansion. However, a policy of high tariff protection for service imports is not a driver of this growth. In fact, the service sector has benefited from a globalized environment that allows for the flow of technology and expertise.

184. (A) The problem of poverty and lack of diversified livelihood opportunities.

Rural development in India faces numerous obstacles, but the most pervasive challenge remains high levels of poverty and the lack of diverse livelihood opportunities beyond traditional farming. Many rural households remain dependent on seasonal agriculture, which often leads to low income and debt traps. While infrastructure is improving, creating sustainable and high-quality non-farm jobs in villages is essential for reducing the pressure on land, curbing distress migration, and ensuring a more resilient and prosperous rural economy.

185. (C) A is true but R is false.

Public-Private Partnerships are promoted as effective tools for infrastructure development because they leverage private capital and efficiency. However, the claim that they are always less expensive and completely free from risks is false. In reality, PPP projects can still face significant cost overruns and delays due to various unforeseen factors. Furthermore, the private partner expects a commercial return on investment, which can sometimes lead to higher costs. Therefore, while PPPs offer many benefits, they require careful risk management.

186. (A) India has consistently maintained a current account surplus since 1991.

India's trade policy has evolved from an inward-looking import substitution strategy to a globalized, export-oriented regime supported by Special Economic Zones. However, it is incorrect to state that India has consistently maintained a current account surplus since 1991. In fact, India has frequently experienced a current account deficit, largely due to its high import bill for crude oil and capital goods. While service exports provide a significant cushion, the overall trade in goods often results in a gap.

187. (D) A mix of EPC and BOT models, where the government and the private player share the project cost.

The Hybrid Annuity Model is an innovative framework for public-private partnerships in infrastructure, particularly in the road sector. It combines elements of both the Engineering, Procurement, Construction and Build-Operate-Transfer models. Under HAM, the government pays a significant portion of the project cost during the construction phase, while the private developer finances the remainder. Once the project is complete, the government pays the balance to the developer in regular annuity installments. This model reduces financial burden and risk for private investors.

188. (A) Both Statement I and Statement II are correct.

Financial markets are divided into primary and secondary segments based on the nature of the securities traded. The primary market is where new securities, such as stocks and bonds, are created and sold to the public for the first time, allowing companies to raise fresh capital. In contrast, the secondary market is where investors buy and sell existing securities among themselves. This secondary trading provides liquidity to investors but does not provide new funds to the issuing company.

189. (C) N. K. Singh

The Fiscal Responsibility and Budget Management Review Committee was established to evaluate the existing fiscal framework and recommend new targets for financial discipline. Headed by N. K. Singh, the committee suggested moving away from a narrow focus on annual deficits and proposed using the debt-to-GDP ratio as the primary fiscal anchor. This recommendation aimed to ensure long-term solvency and provide a more comprehensive measure of the government's overall health, helping to maintain macroeconomic stability and sustainable public debt.

190. (D) 1, 2, 3 and 4

Unemployment in India is caused by a combination of structural and demographic factors. The formal sector grows too slowly to absorb the rapidly expanding labor force, while a significant mismatch exists between the skills provided by education and those demanded by

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232. (A) Improves human capital, which boosts productivity and innovation.

Investment in social infrastructure, particularly in health and education, is a vital driver of long-term economic growth. By providing the population with quality education and better healthcare services, the government improves the nation's human capital. A skilled and healthy labor force is more productive and better equipped to handle the challenges of a modern economy. These improvements foster sustainable development, as they create a more capable workforce that can maximize the efficiency of physical assets and drive overall technological progress.

233. (C) It has been made compulsory and has been successfully completed in all states of India.

Consolidation of land holdings is a policy intended to reduce agricultural fragmentation by bringing scattered plots together into a single, viable farm size. This process makes it easier for farmers to implement modern irrigation and mechanization, boosting productivity. While well-intentioned, the process has been slow and has faced significant resistance from farmers in many regions. Therefore, it is incorrect to state that consolidation has been successfully completed in all states; in reality, its progress has been highly uneven across the country.

234. (A) Improve the fiscal health of the government and create a stable macroeconomic environment conducive to investment.

Implementation of the FRBM Act is intended to improve the overall fiscal health of the government by setting strict limits on deficits and borrowing. By institutionalizing financial discipline, the act helps create a stable and predictable macroeconomic environment. This stability reduces inflationary pressures and prevents the government from crowding out private investment through excessive borrowing. A healthier fiscal position also boosts investor confidence and ensures that public resources are managed sustainably, providing a strong foundation for long-term growth and national stability.

235. (A) Both A and R are true and R is the correct explanation of A.

High levels of income inequality can be deeply detrimental to a nation's sustainable economic growth. This is because extreme disparities often lead to social unrest and political instability, which can disrupt economic activities and deter investment. Furthermore, when a large section of the population lacks access to quality education and health resources, their potential contribution to the economy is lost. For growth to be sustainable, it must be inclusive, ensuring that everyone has the opportunity to participate in and contribute to prosperity.

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236. (B) Significantly lower than the male LFPR.

The Labour Force Participation Rate is a key indicator of the economically active population. In India, official surveys consistently show that the female LFPR is significantly lower than the male LFPR. This gap is influenced by various factors, including the burden of unpaid domestic work and social norms that restrict women's participation in the formal labor market. Addressing these hurdles and encouraging more women to join the workforce is essential for achieving gender equality and fully realizing the nation's potential for growth.

237. (C) A one-time government grant to make a PPP project commercially viable.

Viability Gap Funding is a strategic financial tool used by the government to support infrastructure projects developed through public-private partnerships. It refers to a one-time grant provided to projects that are economically justified but lack sufficient financial returns to attract private investors on their own. By covering a portion of the capital cost, VGF makes these projects commercially viable. This approach allows the government to leverage private sector efficiency and capital to build critical public assets like roads and power plants.

238. (C) Statement I is correct, but Statement II is incorrect.

India's post-1991 economic growth has been marked by a profound integration into the global economy. This shift is clearly reflected in the significant increase in the external sector's contribution to the national Gross Domestic Product. The ratio of total trade—which includes both exports and imports—to GDP

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and its visible imports of physical goods over a specific period. If exports exceed imports, the country has a trade surplus; if imports are greater, it has a trade deficit. Unlike the current account, which includes services and transfers, the balance of trade focuses only on tangible physical commodities.

198. (A) Both Statement I and Statement II are correct.
A key objective of recent labour market reforms in India is to encourage the formalization of the economy. Currently, a vast majority of the workforce is employed in the informal sector, where jobs are insecure and lack legal protections. Formalization is highly desirable because it brings workers into the organized sector, providing them with essential social security benefits like pensions and health insurance. By simplifying regulations, the government aims to create a more stable, productive, and legally protected labor force.

199. (D) Vinoba Bhave
The Bhoodan Movement was a unique, voluntary land reform initiative launched in post-independence India. Initiated by the social reformer Vinoba Bhave, the movement encouraged wealthy landowners to voluntarily donate a portion of their land to be redistributed among the landless poor. Bhave traveled across the country on foot, appealing to the conscience of landlords to achieve social justice through non-violent means. While its overall impact was limited compared to state reforms, the movement highlighted the importance of voluntary social change.

200. (B) P-3, Q-1, R-4, S-2
The Finance Commission is a periodic body with leadership that changes every five years. C. Rangarajan headed the 12th commission, while Vijay Kelkar chaired the 13th. The 14th commission was led by Y. V. Reddy, and N. K. Singh served as the Chairman of the 15th commission. These commissions are vital for managing fiscal federalism, as they formulate the rules for tax devolution and financial transfers to ensure that all states have the resources needed for their developmental goals.

201. (C) The government should not borrow to finance its consumption expenditure.
The focus of the FRBM Act on eliminating the revenue deficit is rooted in sound public finance management. A revenue deficit occurs when the government borrows money to fund its daily operating expenses or consumption, rather than for building productive assets. This is considered economically unsustainable because consumption spending does not generate the future income required to repay the debt. By eliminating this deficit, the government ensures that borrowings are used for capital investments that contribute to long-term national development.

202. (A) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
While several programs aim to protect the poor, they have different primary focuses. The Public Distribution System and the National Food Security Act are direct interventions to ensure food security by providing subsidized grains. In contrast, the Mahatma Gandhi National Rural Employment Guarantee Act is primarily an employment generation program. By providing guaranteed manual work to rural households, it helps individuals earn a wage to support themselves. The program's core mechanism is the provision of work rather than food distribution.

203. (D) A person is working but their work does not utilize their full skill or time.
Underemployment refers to a labor market situation where workers are not utilized to their full potential. This can occur in two ways: either a person is working fewer hours than they desire, or they are employed in a job that does not require their high level of skill and education. In many developing economies like India, underemployment is a major challenge, especially in agriculture and the informal service industry. It represents an inefficient use of human resources for growth.

204. (B) The economy grows but the rate of employment creation is low or nil.
Jobless growth is an economic condition where a nation's Gross Domestic Product increases significantly without a corresponding rise in the number of jobs available. This often happens when economic expansion is driven by capital-intensive industries or high-end services

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unemployment. The Skill India Mission focuses on training, the Make in India initiative aims to create manufacturing jobs, and MGNREGS provides a social safety net through guaranteed manual labor. Additionally, the MUDRA Yojana encourages self-employment by providing loans to small entrepreneurs. However, increasing the Cash Reserve Ratio is a tool of monetary policy used to manage liquidity and control inflation, rather than a direct measure to tackle unemployment for growth.

246. (B) Performs work or participates in a work arrangement and earns from such activities outside of a traditional employer-employee relationship.

As per the Code on Social Security, 2020, a gig worker is defined as an individual who performs work and earns income outside of a traditional employer-employee relationship. This often involves specific tasks mediated through digital platforms. Unlike formal employees, gig workers work on a freelance basis, offering greater flexibility but often lacking standard legal protections and social benefits. This definition is a crucial step toward recognizing the evolving labor market and extending social security coverage to workers in these growing, non-traditional sectors.

247. (A) Both Statement I and Statement II are correct.

Rural development in India is characterized by a dual economy structure. This involves the coexistence of a modern, commercially oriented agricultural sector with a much larger subsistence farming sector. The modern segment utilizes advanced technology for global markets, while the subsistence segment remains dependent on traditional methods for survival. This structural dualism contributes significantly to income inequality and makes it difficult to implement uniform policies. Addressing this gap requires targeted strategies that support small farmers while fostering economic diversification and technological modernization.

248. (A) Trade in goods (visibles), trade in services (invisibles), and transfer payments.

The Current Account of India's Balance of Payments is a comprehensive record of all international transactions involving current income and expenditures. It includes trade in visible goods, often referred to as the merchandise balance, and trade in invisibles, which encompasses services like tourism and information technology. Additionally, it records transfer payments such as remittances from workers abroad and government grants. Unlike the capital account, which tracks ownership of assets, the current account reflects net flow of income generated by daily economic interactions.

249. (C) Reduce transaction and transportation costs, thereby integrating markets and boosting trade.

Physical infrastructure components like national highways, railways, and ports are essential foundations for any modern economy. Their primary role is to provide the tangible systems required for efficient movement of goods and people. By reducing transportation and transaction costs, these assets integrate local markets and facilitate domestic and international trade. This increased connectivity boosts industrial productivity and encourages investment. Furthermore, a robust infrastructure network improves overall competitiveness in global markets, making it a vital driver for sustained industrial expansion and national growth.

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250. (A) Transition from a state-led, control-based system to a more efficient, market-oriented system.

The over arching goal of reforms in India's land, labour, and capital markets has been to transform the nation's economy into a more efficient, market-oriented system. Since 1991, the government has sought to transition away from a state-led, control-based regime characterized by the License Raj. By deregulating industries and encouraging private sector participation, these reforms aim to foster competition, attract investment, and improve overall productivity. This structural shift is intended to integrate India more deeply with the global economy, ensuring long-term sustainable growth and modernization.

251. (B) A direct transition from an agrarian base to a service-dominated economy.

The Indian developmental trajectory deviates from the conventional sequential shift through agriculture, industry, and then services. Instead,

211. (C) Physical Infrastructure: Power transmission lines

Infrastructure is broadly classified into physical and social categories. Physical infrastructure consists of tangible systems that facilitate industrial activity and trade, such as power transmission lines, roads, and ports. These are essential for the movement of energy and goods. In contrast, social infrastructure includes facilities that focus on human development, such as schools and hospitals. Therefore, the pairing of power transmission lines with physical infrastructure is correct, as these systems provide the essential energy backbone required for commercial operations.

212. (A) Both Statement I and Statement II are correct.

Tenancy reforms were a crucial component of post-independence land reforms aimed at protecting the interests of cultivators who did not own the land they worked. These reforms focused on regulating rents paid by tenants and providing them with greater security of tenure to prevent arbitrary evictions. The ultimate goal of the Land to the Tiller policy was to grant ownership rights to the actual cultivators. By empowering tenants and ensuring they received a fair share, these policies fostered a more equitable agrarian society.

213. (C) The excess of the government's revenue expenditure over its revenue receipts.

A revenue deficit signifies that the government's recurring revenue expenditures exceed its recurring revenue receipts. This means the government is spending more on daily operations, such as salaries and subsidies, than it is earning from taxes and other sources. To finance this gap, the government must borrow money. Relying on borrowing for consumption rather than for creating productive assets is considered economically unhealthy. Therefore, a revenue deficit indicates that current spending is not being sustainably covered by income.

214. (B) It captures the various deprivations faced by poor people in terms of health, education, and living standards.

Using a Multidimensional Poverty Index is considered a major improvement over purely income-based measures because it provides a more holistic view of deprivation. Poverty is not just a lack of money; it also involves poor health, inadequate education, and substandard living conditions. The MPI captures these various deprivations by tracking specific indicators like nutrition, school attendance, and access to clean water. By analyzing these factors, the index helps policymakers identify specific needs and design more targeted and effective welfare programs.

215. (A) 1, 2, 3, 4

Different economic scenarios lead to various types of unemployment. A farm laborer without work during the dry season represents seasonal unemployment. An auto worker laid off due to a recession illustrates cyclical unemployment, which follows the business cycle. Disguised unemployment is seen when more people work on a farm than necessary, as in the case of five workers for a three-person task. Finally, a college graduate searching for her first job is experiencing frictional unemployment, which occurs during normal career transitions.

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216. (A) Remained relatively stagnant and low.

A prominent feature of India's economic growth is that the industrial sector's share in total employment has remained relatively stagnant and low over the decades. While the sector's contribution to national output has grown, it has not absorbed a proportional share of the workforce. Most of the labor force continues to be dependent on agriculture, while the remainder has largely moved into the service sector. This indicates that India has not experienced the massive industrial-led employment shift characteristic of advanced nations.

217. (C) Paying farmers the difference between the MSP and the market price if they sell below MSP.

The Price Deficiency Payment System is a modern agricultural policy response designed to protect farmers from market price fluctuations without massive physical procurement. Under this system, the government sets a Minimum Support Price but does not necessarily buy the crop. Instead, if a farmer sells produce in the open market at a price lower than the MSP, the government pays the farmer the difference. This approach reduces the government's storage burden while ensuring farmers receive the guaranteed minimum income for their produce.

industry. Additionally, the seasonal nature of agriculture leads to periods of joblessness for rural workers. Together, these issues create a complex labor market challenge that requires targeted policies in skill development, industrial expansion, and rural diversification to ensure job creation.

191. (A) Higher income inequality.
The Gini coefficient is a vital statistical indicator used to quantify income or wealth distribution within a population. A higher Gini coefficient signifies a greater level of income inequality, indicating that a larger share of total national income is concentrated in the hands of a few. In contrast, a lower coefficient suggests a more equitable distribution. This metric is crucial for policy makers to monitor the gap between social groups and evaluate the effectiveness of redistributive policies aimed at achieving inclusive growth.

192. (B) Service-oriented
An economy's structure is defined by the relative contributions of agriculture, industry, and services to its total output. In a situation where the services sector contributes sixty percent of the Gross Domestic Product, the economy is best described as service-oriented. This structural pattern indicates that most economic activity and value addition come from intangible services rather than from farming or manufacturing. While this reflects a modern development stage, it also highlights the service sector as the primary driver of national growth.

193. (B) The creation of market fragmentation and monopoly power, preventing farmers from getting the best prices.
The Agricultural Produce Market Committee system was established to protect farmers, but it has faced several challenges over time. A major problem is that the system often leads to market fragmentation and the creation of monopoly power for local intermediaries. These middleman can manipulate prices, preventing farmers from receiving the true market value for their crops. Policy responses like e-NAM aim to address this issue by creating a more transparent and competitive national market, allowing farmers to bypass traditional bottlenecks.

194. (A) Availability of skilled human capital and quality infrastructure.
In the post-liberalization era, the factors influencing the location of new industries have shifted significantly. For knowledge-based sectors like information technology and high-end manufacturing, proximity to traditional raw materials is less important. Instead, these industries are increasingly drawn to regions with an abundance of skilled human capital and high-quality infrastructure, such as reliable power and digital connectivity. This trend has led to the growth of major hubs in urban centers that offer a supportive environment and better global linkages for modern commerce.

195. (A) 1, 2, 3 and 4 only
India's rural development strategy includes several major programs targeted at different needs. MGNREGS provides employment, while PMGSY focuses on road connectivity. The National Rural Livelihood Mission aims to organize the poor into self-help groups, and PMAY-G addresses the need for quality rural housing. However, the Jawaharlal Nehru National Urban Renewal Mission is not a rural development program; as its name indicates, it was designed specifically to improve infrastructure and governance in urban areas, reflecting an urban developmental focus.

196. (D) Urbanization in India has led to a significant decrease in overall poverty levels.
Urbanization in India is characterized by pressure on public services like water and sanitation, growth of informal settlements, and strain on transport systems. However, it is incorrect to state that urbanization has led to a significant decrease in overall poverty levels. While cities offer more jobs, they also concentrate poverty in the form of urban slums and low-wage informal work. Therefore, while urban growth drives the economy, it does not automatically eliminate poverty and instead presents new forms of inequality.

197. (C) The difference between the value of a country's visible exports and visible imports.
The Balance of Trade is a specific component of a country's wider Balance of Payments. It refers strictly to the difference between the total monetary value of a nation's visible exports

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Various economic concepts are represented by specific measures or situations. Income inequality is typically quantified using the Gini coefficient or the Lorenz Curve. Absolute poverty is measured against a fixed poverty line for survival. The labor force consists of both those who are currently employed and those who are unemployed but actively seeking work. Underemployment occurs when a skilled worker is forced to take a low-skill job. Understanding these pairings is essential for analyzing the complex socio-economic conditions and labor market dynamics.

226. (C) Statement I is correct, but Statement II is incorrect.

Disguised unemployment is a specific labor market situation characterized by very low or zero marginal productivity. This means even if some workers were removed, the total output would remain unchanged. While this is a major issue in the Indian economy, it is predominantly a feature of the over-crowded agricultural sector where too many family members work on small plots of land. It is not a common feature of the organized industrial sector, where employment levels are strictly aligned with production.

227. (C) The share of agriculture in GDP declines while shares of industry and services increase.

Kuznets's theory of structural transformation describes the typical path of economic development as a country modernizes. It posits that as an economy grows, the relative importance of agriculture in both output and employment declines. Simultaneously, the shares of industrial and services sectors increase. This shift reflects the transition from a traditional agrarian base to a modern economy. In India, this transformation has been unique, as the services share has grown much faster than industry, bypassing the industrial-led phase.

228. (D) Lack of timely and adequate credit for farmers.

The Kisan Credit Card scheme was launched as a policy response to address the lack of timely and adequate institutional credit for farmers in India. Before this scheme, many farmers struggled with complex loan processes or relied on high-interest informal moneylenders. The KCC provides farmers with a flexible credit facility for their production needs, such as purchasing seeds and fertilizers. By simplifying access to bank credit and reducing interest burdens, the initiative helps farmers manage farm expenses effectively.

229. (C) Improving efficiency, unlocking value, and raising resources for the government.

Disinvestment is a policy where the government sells its equity or ownership stakes in public sector undertakings to private investors or the public. The primary goal is to improve the operational efficiency and commercial viability of these companies by introducing private sector management and market discipline. Additionally, disinvestment allows the government to unlock the value of its assets and raise resources for essential social welfare programs. It reflects a shift away from state-dominated production toward a market-oriented structure.

230. (A) 1, 2, 3, 4

India's economic policy has evolved through distinct phases. The Mahalanobis-model industrial policy resolution was established in 1956. The first phase of the Green Revolution followed in the mid-1960s to boost food security. A major structural transformation occurred in 1991 with the introduction of the New Economic Policy and its LPG reforms. Much later, the Mahatma Gandhi National Rural Employment Guarantee Act was enacted in 2005 to provide a social safety net. This sequence reflects the nation's journey toward a liberalized development framework.

231. (D) An almost exclusive reliance on the UK and USA as trade partners.

In the post-liberalization era, the direction of India's foreign trade has seen a significant shift toward diversification. There has been a decline in the relative share of trade with traditional OECD countries, accompanied by a major increase in trade with East Asian nations and China. India has also sought new markets in Africa and Latin America. Therefore, the claim that India relies almost exclusively on the UK and USA as trade partners is incorrect. Instead, the country has integrated with diverse global partners.

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218. (A) Manufacturing

The Make in India initiative, launched in 2014, is a flagship program primarily designed to boost the manufacturing sector of the economy. Its main goal is to transform India into a global manufacturing hub by encouraging both domestic and foreign companies to produce their goods within the country. By improving ease of doing business, enhancing infrastructure, and attracting significant investment, the initiative aims to increase manufacturing's share of the Gross Domestic Product and create productive jobs for the growing labor force.

219. (D) A complete lack of skilled manpower in the country.

India's services sector faces several major challenges, including a dualistic structure with high-skill and low-skill segments, the need for regulatory reforms in professional services, and the threat of job losses due to automation. However, the claim that there is a complete lack of skilled manpower in the country is incorrect. In fact, one of the primary drivers of India's success in the service sector has been its large pool of skilled, English-speaking professionals, making it a global hub for services.

220. (A) 1, 2, 3 and 4 only

Rapid urbanization in India has created significant challenges for city infrastructure. Most urban areas face inadequate access to safe drinking water and a severe lack of comprehensive sewerage and sanitation networks. Public transport systems are often overburdened and inefficient, while solid waste management remains a critical issue. However, the claim of an abundance of affordable housing is incorrect. On the contrary, there is a widespread shortage of affordable homes, leading to the growth of slums with extremely poor living conditions.

221. (C) FDI is recorded as a debit item on the current account of BOP.

Foreign Direct Investment is generally considered a more stable form of capital flow than Foreign Portfolio Investment because it involves long-term commitments and technology transfer. The government has progressively liberalized its policies to attract both forms of capital. However, it is incorrect to say that FDI is recorded as a debit item on the current account. Capital inflows like FDI and FPI are recorded in the capital account of the Balance of Payments, as they involve changes in asset ownership.

222. (D) Make a project that is economically justified but not financially viable attractive to private investors.

Viability Gap Funding is a strategic policy tool used in public-private partnerships for infrastructure development. It involves a one-time government grant provided to projects that are economically essential but not financially attractive to private investors on their own. By covering a portion of the project cost, the funding makes these ventures commercially viable and helps attract private capital. This approach is particularly useful for building critical infrastructure like roads and power plants that have high social benefits.

223. (A) Providing flexibility to employers for business efficiency and ensuring job security and social protection for workers.

The central debate surrounding labour market reforms in India is focused on finding a sustainable balance between two competing needs. On one hand, employers require greater flexibility in hiring and firing to improve efficiency and respond to changing market demands. On the other hand, there is a critical need to ensure job security and social protection for workers. Achieving this balance is essential for encouraging industrial growth and formalizing the economy while protecting the rights of the nation's labor force.

224. (B) The Union Government.

The Finance Commission is a constitutional body established to manage fiscal relations between the center and the states. Before the commission begins its work, the Union Government defines its specific mandate and issues it must address, known as the Terms of Reference. These terms outline the scope of recommendations regarding tax devolution and grants-in-aid. By setting the ToR, the central government ensures that the commission's work aligns with current economic priorities and fiscal challenges facing the entire country in the federal system.

225. (B) P-2, Q-1, R-4, S-3

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has risen substantially since the reforms began. This indicates that India has moved away from earlier inward-looking policies. Consequently, the claim that the trade-to-GDP ratio has remained low is incorrect and contradicts the actual experience.

239. (A) An integrated development of crop cultivation, horticulture, forestry, fishery, poultry, animal husbandry and food processing.

The Rainbow Revolution is a comprehensive concept in Indian agriculture that emphasizes integrated and balanced development of all farming-related sectors. Unlike earlier revolutions that focused on specific crops like wheat or milk, the Rainbow Revolution aims to boost productivity across crop cultivation, horticulture, forestry, fisheries, poultry, and animal husbandry. It also includes modernization of food processing and agricultural marketing. By promoting this diversified approach, the strategy seeks to ensure overall food security and increase rural incomes by utilizing all resources.

240. (A) 1, 2 and 3 only

Special Economic Zones in India are designed as high-growth, export-oriented hubs. They are treated as foreign territory for the purposes of trade operations, allowing for liberal regulations. Units within these zones are provided with tax concessions to attract foreign investment and boost national exports. However, SEZs are not primarily intended to serve the domestic market. Their main objective is to provide an internationally competitive environment for production that targets global buyers. By focusing on exports, SEZs aim to earn foreign exchange.

241. (B) Urban development by empowering Urban Local Bodies (Municipalities).

The 74th Constitutional Amendment Act is a landmark policy response focused on urban development and governance. By granting constitutional status to Urban Local Bodies, the act aimed to empower these institutions and ensure their democratic functioning. It defined their powers, functions, and financial responsibilities, encouraging decentralization of urban planning and service management. This reform was intended to make city governance more responsive to local needs and provide a systematic framework for managing challenges of rapid urbanization through decentralized institutions.

242. (A) Combine the public sector's social objectives with the private sector's efficiency and capital.

Public-Private Partnerships are designed to bridge the massive infrastructure gap by utilizing private sector resources and management expertise. The main rationale is to integrate the public sector's mandate for social welfare with the private sector's ability to innovate and maintain efficiency. By sharing the financial burden and allocating risks to the most appropriate party, PPPs allow the government to deliver essential public services and large-scale projects, such as highways and power plants, more effectively and efficiently.

243. (C) Number of metropolitan cities in a state

Horizontal tax devolution refers to the distribution of central taxes among different states based on an equitable formula. The Finance Commission uses various criteria like population, area, forest cover, and income distance to determine each state's share. These factors help address regional disparities and developmental needs. However, the number of metropolitan cities in a state is not typically used as a criterion for tax devolution. Instead, focus is on broader demographic and geographic indicators that reflect a state's overall fiscal capacity and local challenges.

244. (D) Inhibits the development of human capital needed for sustainable livelihood earnings.

A lack of access to quality education and healthcare services is a fundamental cause of poverty. These social services are essential for building human capital, which is the foundation of an individual's earning potential. Without proper education, people lack skills needed for productive jobs in a modern economy. Similarly, poor health reduces physical capability and leads to high expenses that drain family resources. By inhibiting development of human capital, these deprivations prevent the poor from securing sustainable livelihoods, trapping them in a cycle.

245. (A) 1, 2, 3 and 4 only

The Indian government has launched several policy responses to address the challenge of

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that require very few, highly skilled workers. While the economy as a whole becomes more productive, benefits are not widely shared as employment creation remains stagnant. This phenomenon presents a major challenge for achieving inclusive growth for the labor force.

205. (C) Developing cold storage chains and food processing industries.

Perishable horticultural crops are highly susceptible to sharp price fluctuations due to their short shelf life and seasonal production. To address this volatility, the most effective policy response involves developing a robust network of cold storage chains and expanding the food processing industry. By improving the ability to store and process produce, the government can reduce post-harvest losses and ensure a more stable supply. This helps farmers get better prices and provides consumers with more affordable products consistently.

206. (D) Increased role for the public sector and reservation of more industries for it.

The New Industrial Policy of 1991 introduced fundamental changes to encourage a more liberal, market-driven economy. Key features included the abolition of industrial licensing for most sectors, liberalization of foreign investment rules, and introduction of public sector disinvestment. However, increasing the role of the public sector or reserving more industries for it was not part of this policy. Instead, reforms significantly reduced the number of sectors reserved for the state, encouraging private participation and competition across the industrial landscape.

207. (A) The impact of policy reforms and technological advancements.

The spectacular growth of the telecom and information technology sectors in India is a clear example of how policy reforms and technological advancements can transform an economy. By liberalizing these sectors and encouraging private investment, the government created a dynamic environment that allowed these industries to expand rapidly. This growth significantly boosted the overall services sector, providing a platform for high-value exports and modern business activities. It demonstrates that strategic deregulation and technology adoption serve as powerful drivers for development.

208. (B) Members of Parliament adopting and developing model villages.

The Saansad Adarsh Gram Yojana is a rural development program that involves Members of Parliament adopting and developing model villages in their respective constituencies. The goal is to improve the socio-economic and physical infrastructure of these villages through better implementation of existing government schemes and community participation. By focusing on areas like health, education, and sanitation, the program aims to create examples of rural development that can inspire neighboring villages. This initiative highlights the role of political leadership.

209. (B) Creating compact, walkable, mixed-use communities centered around high-quality train systems.

Transit-Oriented Development is a modern urban planning concept that focuses on creating compact, mixed-use communities centered around high-quality public transportation hubs. By concentrating housing, office space, and retail activities near transit points, the model aims to reduce dependence on private vehicles and encourage the use of public transport. This approach helps in managing urban sprawl, reducing traffic congestion, and lowering carbon emissions, making cities more sustainable and livable for the rapidly growing urban population of the country.

210. (A) Both A and R are true and R is the correct explanation of A.

Since the 1991 reforms, India's export structure has seen a significant shift toward manufactured goods and refined products. This change was driven by a trade policy that moved away from protectionism toward liberalization and export promotion. By reducing tariffs and removing bottlenecks, the government encouraged industrial diversification and helped domestic manufacturers become more competitive globally. Consequently, India's reliance on traditional primary commodity exports has decreased, and the country has integrated more deeply into global trade through various products.

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the economy experienced a notable leapfrogging phase directly from an agrarian-dominated base to a service-led structure. This unconventional transition occurred without the industrial sector becoming the primary engine for employment or output during the growth process.

252. (A) The sectoral contribution to GDP and the proportion of the workforce employed.
A critical structural challenge in India is the profound disconnect between sectoral contributions to the national income and employment patterns. While services generate the largest share of the Gross Domestic Product, the agricultural sector continues to support a vast majority of the workforce. This discrepancy impacts income distribution and poses significant hurdles for achieving inclusive development.

253. (C) Difficulty in ensuring inclusive development due to employment-output disparities.
The structural transition toward a service-led economy, without a corresponding shift in the labor force, complicates the pursuit of equitable prosperity. Because the industrial sector has not expanded sufficiently to absorb surplus agricultural labor, the resulting employment-output disparity creates barriers to inclusive growth. This imbalance leads to persistent inequalities and complicates long-term sustainable economic progress.

254. (D) The industrial sector's growth not creating a proportionate number of jobs.
Jobless growth describes a phenomenon where specific economic sectors expand in terms of output without generating a proportional increase in employment opportunities. In the Indian context, the industrial sector has experienced significant growth, yet it has failed to become the primary driver of job creation. This disconnect results in stagnant employment levels despite rising industrial contributions.

255. (C) The services sector has the highest share in GDP, while agriculture employs a large part of the workforce.
The current economic structure exhibits a unique duality regarding sectoral contributions and workforce distribution. High-growth services like information technology and finance contribute the most significant portion to the national Gross Domestic Product. Conversely, the agricultural sector remains the primary source of livelihood for a large population, despite its steadily declining share in the overall economy.

256. (B) A strategy of import substitution dominated by the public sector and heavy industries.
Following independence, the industrial strategy emphasized self-reliance through import-substituting industrialization. This approach prioritized the development of heavy industries and assigned a dominant role to the public sector in directing economic growth. The policy aimed to build a domestic industrial base while reducing dependence on foreign goods through strict licensing and state-led capital investment initiatives.

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257. (D) A greater role for the private sector and increased diversification.
The economic reforms initiated in 1991 represented a fundamental shift toward liberalization and globalization. By dismantling the industrial licensing system, the government opened various sectors to private and foreign participation, fostering greater competitiveness. This transition enabled significant diversification of the industrial base, allowing private enterprises to lead growth and adapt more effectively to global market demands.

258. (A) Inadequate infrastructure and complex regulatory environments.
India's industrial sector faces persistent obstacles that hinder its growth potential and global competitiveness. Inadequate physical infrastructure, particularly in power and logistics, significantly raises operational costs for manufacturers. Additionally, complex regulatory frameworks and restrictive labor laws create hurdles for businesses. These structural issues, combined with competition from cheap imports, impede the sector's expansion and efficiency.

259. (C) Improving the business environment and boosting domestic manufacturing.
The 'Make in India' initiative is a strategic policy response designed to transform the country into a global manufacturing hub.

276. (A) A move from a primary commodity-based trade to one including manufactured goods and services.

India's foreign trade structure has undergone a significant transformation, moving away from a traditional reliance on primary commodities. The current export basket is highly diversified, featuring a substantial share of manufactured goods and modern services. This evolution reflects the increasing complexity and modernization of the domestic economy, as well as its deeper integration into global value chains.

277. (D) A greater focus on countries within Asia and the developing world.

The direction of India's international trade has seen a discernible shift toward new regional partners. While traditional trade with Europe and North America remains important, there is an increasing pivot toward countries in Asia and other developing regions. This change highlights the growing importance of South-South cooperation and the emergence of new economic hubs in the world.

278. (B) Through surpluses generated from software exports and remittances on the invisibles account.

India traditionally maintains a deficit in its merchandise trade, where the value of imported goods exceeds exported ones. This shortfall is often compensated for by a surplus on the invisibles account of the Balance of Payments. Strong software service exports and significant inward remittances from the global diaspora provide the necessary foreign exchange to balance the current account.

279. (C) Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

The capital account of the Balance of Payments is primarily influenced by the influx of two main types of foreign capital. Foreign Direct Investment represents long-term interests and physical assets in the domestic economy. Foreign Portfolio Investment consists of investments in financial assets like stocks and bonds. Both components are crucial for financing the current account deficit.

280. (D) It has moved from a restrictive stance to a more open and liberalized one.

India's trade policy has transitioned from an inward-looking, restrictive stance toward a more open and liberalized regime. Historically, high tariffs and quotas were used to protect domestic industries. However, recent reforms have prioritized export promotion and the attraction of foreign capital. This liberalization aims to enhance global competitiveness and integrate the Indian economy more effectively worldwide.

281. (A) A national highway system.

Physical infrastructure consists of the tangible networks and systems that provide the foundation for economic activity. A national highway system is a quintessential example, as it facilitates the transport of goods and people across the country. Such networks are essential for reducing logistical costs, improving connectivity, and supporting the efficient functioning of various industrial and commercial sectors.

282. (B) To enhance human capital by developing a skilled and healthy workforce.

Social infrastructure refers to the facilities and services that improve the quality of life and build human capital. Primarily consisting of education and healthcare systems, its development is crucial for creating a skilled and healthy workforce. A robust social infrastructure is a prerequisite for sustained long-term economic growth, as it ensures the population is capable of productivity.

283. (B) Higher costs for businesses and reduced economic competitiveness.

Deficiencies in physical infrastructure, such as inadequate power or poor transport networks, create significant logistical bottlenecks. These weaknesses increase operational costs for businesses, making domestic products less competitive in both local and international markets. Without efficient infrastructure, the economy struggles to attract investment and achieve its full growth potential due to higher expenses and reduced systemic efficiency.

284. (A) To leverage private sector resources and efficiency to meet large financial requirements.

Public-Private Partnerships are adopted as a key policy instrument to address the massive financial requirements of infrastructure development.

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highly vulnerable to climatic fluctuations. These issues, combined with outdated methods, hinder overall agricultural efficiency.

268. (A) Issues related to post-harvest management.
Inefficient supply chains and inadequate storage facilities represent major challenges within the broader category of post-harvest management. These logistical deficiencies result in significant losses of agricultural produce after cultivation is complete. By failing to preserve and transport goods effectively, the system reduces the potential income for farmers and impacts the overall stability and availability of food supplies.

269. (C) To create a unified national market for agricultural goods.
The Electronic National Agriculture Market (e-NAM) is a digital platform designed to integrate existing agricultural markets across the country. Its primary objective is to create a unified national market for agricultural produce, facilitating transparent price discovery for farmers. By reducing the influence of intermediaries, the initiative helps producers obtain better prices and improves the overall efficiency of agricultural trade.

270. (D) Make agriculture a more commercially viable and profitable activity.
Government interventions in the agricultural sector aim to transform it from a traditional subsistence activity into a modern, commercially viable enterprise. Policies focus on enhancing farmer incomes through diversification, improved irrigation, and better market access. By addressing structural bottlenecks and promoting credit facilities, the objective is to make farming a more profitable and sustainable occupation for rural workers.

271. (C) Disguised unemployment and lack of infrastructure.
Rural development in India faces significant hurdles, including high levels of disguised unemployment where more people are engaged in agriculture than necessary. Additionally, a lack of non-farm employment opportunities and inadequate social and physical infrastructure restrict economic diversification. These factors collectively hinder the creation of sustainable livelihoods and perpetuate economic stagnation within rural communities across many national regions.

272. (B) The lack of employment opportunities and infrastructure in rural areas.
The Mahatma Gandhi National Rural Employment Guarantee Act functions as a vital social safety net for the rural population. Its primary goal is to address the lack of consistent employment opportunities by providing guaranteed wage labor. Furthermore, the program is designed to create durable rural assets, such as roads and water structures, which improve the local economy.

273. (D) The strain on infrastructure due to rapid urbanization.
Rapid and often unplanned urbanization in India exerts severe pressure on public utilities and city infrastructure. This process leads to the proliferation of slums and causes a significant strain on essential services like water supply, sanitation, and waste management. Furthermore, urban centers face increasing challenges related to traffic congestion and environmental pollution, which negatively impact quality of life.

274. (A) Upgrading urban infrastructure and improving city governance.
The Smart Cities Mission is a strategic policy initiative aimed at modernizing urban centers through upgraded infrastructure and improved governance. By leveraging technology, the program seeks to provide more efficient public services and enhance the quality of life for residents. The focus is on creating sustainable urban environments that can effectively manage the pressures of a growing population.

275. (C) They are interconnected, with rural distress often contributing to urban problems.
Rural and urban development challenges are deeply interconnected through migration patterns driven by economic necessity. Distress in the rural economy, caused by low productivity or lack of jobs, often forces individuals to migrate to cities in search of better prospects. This influx exacerbates existing urban problems like slum expansion and infrastructure strain, necessitating a balanced policy approach.

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293. (D) To enforce fiscal discipline by setting targets for deficit reduction.

The Fiscal Responsibility and Budget Management Act serves as an institutional framework to enforce fiscal discipline within the government. Its principal objective is to ensure long-term fiscal sustainability by setting specific targets for reducing fiscal and revenue deficits. By containing government debt, the legislation promotes prudent fiscal policy and protects the country's financial health from excessive borrowing and spending.

294. (B) Allocating the states' collective share of tax revenue among individual states.

Horizontal devolution involves the process of dividing the states' collective share of tax revenue among the individual states. The Finance Commission uses a specific formula based on criteria like equity, efficiency, and demographic needs to determine this allocation. This ensures that funds are distributed fairly among states with different economic capacities, promoting balanced regional development across the country.

295. (C) Placing constraints on the borrowing and spending of both Centre and States.

The Fiscal Responsibility and Budget Management framework significantly impacts Centre-State financial relations by imposing mandatory constraints on fiscal behavior. Both central and state governments must adhere to deficit reduction targets and debt limits. These restrictions limit the fiscal space available for spending and borrowing, ensuring that the entire federation maintains macroeconomic stability and follows a path of prudence.

296. (D) The coexistence of high economic growth with persistent poverty and rising inequality.

A striking paradox in the Indian economic landscape is the coexistence of rapid GDP growth alongside persistent poverty and rising inequality. Despite the country's success in achieving high rates of economic expansion, the benefits are not distributed evenly across all sections of society. This disconnect raises fundamental questions about the nature of growth and its ability to improve lives.

297. (A) The growth process may not be inclusive.

The increasing gap in income and wealth suggests that the economic growth process may not be sufficiently inclusive. When the benefits of expansion are concentrated among the wealthy, the broader population fails to experience significant improvements in their standards of living. This lack of inclusivity can undermine social stability and limit the long-term sustainability of the development process itself.

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298. (B) Disguised unemployment, particularly in the rural sector.

Unemployment in India is a complex, multifaceted issue that goes beyond simple joblessness. A major component is disguised unemployment, particularly prevalent in the rural sector, where individuals appear employed but contribute little to marginal productivity. Other challenges include underemployment and structural unemployment, where a mismatch between worker skills and available jobs prevents the workforce from finding productive employment.

299. (B) They are deeply interconnected, with each issue influencing the others.

Poverty, inequality, and unemployment are deeply interconnected challenges that reinforce one another. High levels of inequality can perpetuate poverty by restricting access to education and opportunities for the disadvantaged. Similarly, a lack of quality employment is a primary driver of both financial hardship and wealth disparities. Addressing one issue often requires simultaneous interventions in others.

300. (A) Targeted interventions that go beyond just growth-centric policies.

Successfully addressing the triad of poverty, inequality, and unemployment requires targeted policy interventions that extend beyond a simple focus on aggregate GDP growth. While growth is necessary, it is not sufficient to ensure equitable distribution or job creation. Development policies must specifically aim to improve skill sets, enhance social safety nets, and ensure benefits reach vulnerable populations.

This model allows the government to leverage the financial resources, operational efficiency, and innovation of the private sector. By sharing risks and rewards, PPPs supplement public funding and expedite the creation of essential public assets, leading to faster development.

285. (C) Facilitate and accelerate overall economic development.

The overarching objective of developing both physical and social infrastructure is to provide a solid foundation for comprehensive economic progress. While physical networks lower business costs, social facilities enhance the productivity of the workforce. Together, they create an environment conducive to investment and innovation, thereby facilitating and accelerating the overall development and modernization of the entire nation.

286. (D) To enhance economic efficiency and attract investment.

Reforms in the factor markets of land, labor, and capital are essential for improving the ease of doing business and enhancing economic efficiency. These changes aim to create a more transparent and streamlined environment that attracts both domestic and foreign investment. By modernizing these fundamental markets, the government seeks to unlock growth potential and ensure resources are allocated.

287. (C) Establishing clear titling and digitized land records.

Key reforms in the land market focus on resolving long-standing complexities related to ownership and acquisition. Efforts include establishing clear land titling and creating a digitized system for land records to improve transparency. These measures are designed to simplify the process of acquiring land for industrial and infrastructure projects, thereby reducing legal disputes and encouraging long-term capital investment.

288. (B) Employer flexibility with worker social security.

The discourse on labor market reforms involves finding a balance between two competing priorities. On one hand, employers seek greater flexibility in hiring and firing decisions to adapt to changing market conditions. On the other hand, there is a crucial need to ensure adequate social security and rights for workers. The goal is to create a streamlined code.

289. (D) To improve the allocation of capital to its most productive uses.

Capital market reforms are intended to deepen the financial system and improve its overall transparency. By enhancing investor protection and strengthening corporate governance, these reforms provide a wider range of financial instruments for participants. The primary goal is to ensure that capital flows efficiently to its most productive uses, thereby supporting business expansion and fostering broad-based economic growth.

290. (A) A holistic and coordinated approach to reforms is essential for success.

The interconnected nature of factor markets implies that progress in land, labor, or capital is often dependent on developments in the others. For example, industrial expansion requires both accessible land and flexible labor. Therefore, a holistic and coordinated approach to reform is essential. Implementing isolated changes may fail to achieve the desired impact on overall efficiency.

291. (C) To recommend the distribution of financial resources between the Centre and States.

Finance Commissions are constitutionally mandated bodies responsible for determining the financial relationship between the central and state governments. Their primary function is to recommend the distribution of tax proceeds and other financial resources. By providing a framework for vertical and horizontal devolution, they ensure a fair allocation of funds, balancing the requirements of the Union and States.

292. (A) The share of the Centre's tax revenue that is transferred to the States.

Vertical devolution refers to the specific proportion of the Union's net tax proceeds that is transferred to the state governments. This mechanism ensures that states have sufficient financial resources to perform their constitutional duties and implement various developmental programs. The Finance Commission determines this share periodically, balancing the fiscal needs of the central government with those of states.

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It focuses on improving the ease of doing business by streamlining regulations and attracting investment. By addressing infra structural bottlenecks and encouraging domestic production, the program aims to boost manufacturing output, create jobs, and enhance the nation's overall competitiveness.

260. (A) Successfully addressing underlying infra structural and structural problems.

The long-term success of modern industrial strategies is closely tied to resolving deep-seated structural and infra structural deficiencies. While initiatives focus on attracting investment, their impact remains limited by logistical bottlenecks and complex regulatory environments. Effectively tackling these underlying issues, such as power supply and labor laws, is essential for creating a conducive environment for sustained industrial growth.

261. (D) It acts as the main driver of economic growth and the largest contributor to GDP.

The services sector has become the most dynamic component of the economy, serving as the primary engine of overall national growth. It contributes the largest share to the Gross Domestic Product, driven by high-growth areas like information technology and finance. This dominance reflects a transition where services lead economic expansion, despite challenges in other sectors.

262. (B) Heterogeneous, with both high-skill modern segments and low-skill traditional ones.

The services sector is characterized by its extreme heterogeneity, containing vastly different types of economic activities. It includes high-skill, high-wage segments such as banking, financial services, and information technology that are globally competitive. Simultaneously, it encompasses traditional, low-skill segments like petty trade and domestic services. This internal diversity results in varying levels of productivity.

263. (C) A mismatch between the skills of the workforce and the demands of the industry.

A significant hurdle for the services sector is the widening gap between the skill sets of the workforce and industry requirements. The education system often fails to produce enough graduates with the specialized technical and professional expertise needed by high-growth service industries. This mismatch limits growth potential and hinders the achievement of a broader inclusive economic expansion.

264. (D) The co-existence of a highly productive formal segment and a large informal segment.

Dualism in the services sector refers to the simultaneous existence of two distinct economic environments. One is a small, highly productive formal segment that utilizes advanced technology and skilled labor. The other is a large, low-productivity informal segment characterized by traditional activities. This disparity highlights the uneven development within the sector and complicates efforts to achieve uniform productivity gains.

265. (A) Promoting a more inclusive expansion by addressing skill gaps and infrastructure.

Modern policy responses for the services sector aim to foster a more inclusive and broad-based growth trajectory. These initiatives focus on bridging skill gaps through specialized training and enhancing digital infrastructure via programs like Digital India. By improving the regulatory environment, the government seeks to encourage expansion in labor-intensive areas, ensuring the benefits of growth reach diverse population segments.

266. (B) It provides livelihoods for a majority of the rural population.

Despite a shrinking contribution to the national Gross Domestic Product, the agricultural sector remains a cornerstone of the economy. Its significance is primarily rooted in its role as the largest source of livelihoods for a majority of the rural population. Beyond providing employment, the sector is essential for ensuring food security for the country's vast and growing population.

267. (B) Fragmented land holdings and dependence on monsoons.

Low productivity in the agricultural sector stems from several deeply rooted structural and environmental factors. Fragmented and small land holdings prevent the adoption of modern, large-scale farming techniques and economies of scale. Furthermore, an excessive reliance on seasonal monsoon patterns makes crop yields

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